March 2015 **POLICY BRIEF** guinncenter.org

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.

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

Questions for Legislators

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

In the annual *State of the State* address, Nevada Governor Brian Sandoval identified more than twenty K-12 education programs he wanted the State to fund. He then introduced his plan for raising revenues to fund his education priorities. Specifically, he proposed to modify Nevada's existing Business License Fee (NRS 360.760-360.796) by changing the flat $200 fee to a graduated fee structure based on gross receipts. Under the proposed law (Senate Bill 252), the Business License Fee would range from a minimum of $400 for small businesses to $4 million for businesses generating more than $1 billion in revenue each year.[i] Second, the proposed new Business License Fee structure also imposes different rates for different industries, ranging from 0.056 percent (mining) to 0.362 percent (rail transportation).

2. Nevada's current State tax policy landscape lacks a broad-based business tax

Currently, Nevada has one of the lowest tax burdens in any state. According to the Tax Foundation, an independent tax policy research organization, Nevada's 2011 tax burden of 8.1 percent ranks 8th lowest out of 50 states. Nevada is one of five states that does not have a corporate income tax.[ii] Traditionally, Nevada's tax structure has relied on a combination of sales taxes, property taxes, and taxes on specific industries, such as gaming and mining.

To expand the tax base, the Legislature approved the Modified Business Tax (MBT) in 2003, which is a payroll tax that applies to all industries. The tax rate is 2 percent for financial institutions and 1.17 percent for other businesses. Currently, the MBT for nonfinancial businesses only applies to companies with more than $85,000 in quarterly wages. There is no quarterly deduction for financial institutions.

The MBT is viewed favorably by some for its "simplicity and ease of compliance."[1] However, as the Tax Foundation notes, the "tax's current structure is not neutral, leaving several opportunities for improvement. Large exemptions create a narrow base, and a higher rate on financial institutions is non-neutral and inequitable."[2] A recent presentation to the Nevada Senate Committee on Revenue and

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[i] The Nevada Department of Administration anticipates that the highest Business License Fee that any business currently operating in Nevada will amount to $2 million.

[ii] In addition to Nevada, Texas, South Dakota, Washington and Wyoming do not have corporate income taxes.

Economic Development in March 2015 noted that only 4 percent of businesses in Nevada pay the Modified Business Tax: of an estimated universe of 330,000 businesses, only 12,191 pay the nonfinancial MBT and 1,562 pay the financial MBT (for a total of 13,753 businesses).[3]

3. The revised Business License Fee structure contains elements of good tax policy

National tax policy experts have identified several key principles of good tax policy.[4] Against these principals, the Guinn Center asserts that Nevada's proposed Business License Fee contains several elements of good tax policy.

Taxes should be stable and predictable

Tax policy experts observe that "Nevada's tax 'portfolio' has consistently suffered from an inadequate response to both the business cycle and long run economic growth."[5] National tax policy experts believe that a revenue-generating instrument based on gross receipts is a (more) stable and predictable structure than a number of other taxes.[6] Echoing the national research, Nevada-based economists Dr. Alan Schlottmann of the University of Nevada Las Vegas and John Restrepo wrote in a recent report that "sales taxes of all types and gross receipts taxes are less volatile than income taxes."[7] The Business License Fee is based on a business's gross receipts, which are viewed by many as a more stable and predictable source of revenues.

Rates should be broad-based and low

The proposed tax rates for each industry are shown in Table 1. The average rate is 0.163 percent. The highest rate is for rail transportation at 0.362 percent and the lowest rate is on mining at 0.056 percent. As we discuss in the following pages, the effective tax rates under the proposed Business License Fee are lower than those under the 2014 Education Initiative (margin tax) proposal.

Taxes should be fair and simple; taxes should protect economic competitiveness

The Business License Fee is a simplified version of the Texas Franchise Tax, which was the basis for the Nevada margin tax proposals in 2011 and 2014. The Business License Fee rate for each industry is derived based on the effective tax rates experienced through the Texas Franchise Tax.[iii] Tax policy consultants working with the Office of the Governor then made adjustments to the rates for retailers, wholesalers, restaurant operators, and accommodations.[8] The rates were then proportionally reduced to generate the amount of revenue desired from the proposed Business License Fee. By drawing on the effective tax rates by industry under the Texas Franchise Tax, the proposed Business License Fee structure attempts to balance the burden among the State's capital and labor-intensive businesses.

The Business License Fee proposal is intended to be as broad-based as possible and aims to capture all 330,000 businesses in the state. This includes businesses incorporated in other states (foreign corporations) and business with no employees. All businesses with no employees would pay the flat $400 business license fee (SB 252, Section 22). This would encompass many of the foreign corporations, which do not have any employees in Nevada. Foreign corporations with employees would be required to pay the designated tax amount for the industry and business size.

[iii] See Office of the Governor. January 2015. *Business License Fee Facts*.

Table 1. Business License Fee Rate and Profitability Rate by Industry[9]

A	B	C	D
Industry	Business License Fee Rate	National Industry Profitability Rate[1]	Contribution to State Gross Domestic Product (2012)
Rail Transportation	0.36%	0.62%	0.17%
Telecommunications	0.33%	0.43%	1.10%
Educational Services	0.31%	7.00%	5.97%
Waste Management Services	0.29%	4.33%	0.29%
Publishing		12.81%	0.41%
Software	0.28%	4.19%	0.54%
Data Processing		0.80%	0.21%
Real Estate	0.27%	7.46%	13.69%
Arts, Entertainment & Recreation	0.26%	3.14%	2.48%
Truck Transportation	0.22%	1.65%	0.51%
Accommodation	0.22%	-1.11%	10.69%
Food Services (including restaurants)	0.21%	4.50%	3.27%
Health Services	0.21%	5.10%	5.57%
Professional Services	0.20%	4.19%	9.80%
Administrative and Support Services	0.17%	3.44%	2.77%
Other services	0.16%	4.02%	1.84%
Management of Companies	0.15%	62.04%	2.43%
Utilities	0.15%	-4.98%	1.50%
Other Transportation	0.14%	3.41%	1.64%
Warehousing & Storage	0.14%	2.91%	0.45%
Retail Trade	0.12%	2.71%	6.76%
Financial Activities	0.12%	16.75%	4.97%
Wholesale Trade	0.11%	2.38%	3.90%
Construction	0.09%	1.93%	4.23%
Manufacturing	0.10%	5.56%	4.33%
Agriculture	0.07%	2.69%	0.28%
Air Transportation	0.06%	0.62%	1.41%
Mining	0.06%	6.70%	7.85%
Unclassified	0.14%		
AVERAGE	0.16%		
Non-Employer Companies	$400 flat fee		
Foreign Filers	$400 flat fee		

[iv]

While the proposed Business License Fee rates are low, it is not clear what considerations of equity and fairness informed the design of the structure. Nevada tax consultants purportedly used the effective tax rates realized under the Texas Franchise Tax. And rather than allowing Nevada businesses to deduct cost of goods sold, tax policy experts chose to use the Texas tax rates that already built cost of goods sold and compensation deductions into the tax rate for each industry.

[iv] [1] Profitability rate is based on IRS data for industry calculated as net income as a share of total receipts.

However, we have two concerns with the rates:

- First, the business license fee rates do not correlate with the general profitability of the industry or with the contribution of the industry to Nevada's gross domestic product (GDP). Table 1 presents the proposed business license fee rates for 27 industry categories, the national industry profitability rate (based on Internal Revenue Service business returns), and the industry contribution to Nevada's GDP. In both cases, there is a small negative correlation between the license fee rate and the industry profitability rate (-0.10) and the contribution to Nevada's GDP (-0.02). For example, the rail transportation industry has the highest business license fee rate of 0.362 percent, and yet the profitability rate of the industry is only 0.62 percent, and its contribution to the Nevada Gross Domestic Product is only 0.17 percent. The tax rate on retail trade is 0.121 percent, the national profitability rate across all businesses in the industry is 2.71 percent, and the contribution to Nevada's Gross Domestic Product is 6.76 percent.

- Second, in the absence of clear principles of equity and fairness, inconsistencies appear. Under the revised Business License Fee structure, publishing, software, and data processing were grouped into one category and taxed at a rate of 0.276 percent, the fifth highest rate. However, the profitability rate for those industries varies significantly: publishing (12.81 percent), software (4.19 percent), and data processing (0.80 percent).

In short, the Governor's revised Business License Fee (SB 252) contains several elements of good tax policy, specifically – the license fee rates are low and the fee structure is broad-based. We have some concerns with the absence of articulated principles of fairness and equity informing the design of the rates. However, we acknowledge that by drawing on the Texas Franchise Tax experience, the Business License Fee architects were seeking to arrive at a fee rate structure that took into account high cost, low-margin businesses.

4. Nevada is not the only state to consider a fee (tax) based on gross receipts

The revised Business License Fee is a revenue-generating instrument based on a business's gross receipts. National research suggests that there are significant advantages to a revenue generating instrument based on gross receipts. Among these are: (1) its ability to raise significant amounts of revenue and its ability to provide a more stable revenue stream than a corporate income tax; (2) improved equity in tax payments among different types of businesses (corporations v. partnerships) and between goods-related and service-related industries; and (3) a reduction in special interest tax breaks.[10]

There are also disadvantages cited to taxes based on gross receipts. Critics assert that gross receipts taxes are less desirable than corporate income taxes because they: (1) are not based on profit and can cut into the bottom line of businesses that have little or no net income, which can threaten the economic viability of businesses; (2) can create tax "pyramiding" by taxing transactions at each stage of production; and (3) can lead to higher costs for consumers.[11]

Nevada is not the only state to have considered and implemented a gross receipts fee or tax. Many states, in fact, have considered and even implemented gross receipts style taxes over the last fifteen years (see Appendix A).[12] Kentucky, for example, enacted a gross receipts tax in 2005, repealed it in 2006, and then adopted the Limited Liability Entity Tax (LLET), which is a revised gross receipts tax.[13] Michigan repealed its gross receipts tax in 2011, only to replace it with a corporate income tax (6 percent rate) that excluded pass through entities (including S-corporations and limited liability partnerships). New Jersey has a tax on gross receipts that is part of the business taxes paid by corporations. Indiana repealed its long standing gross receipts tax in 2002 and replaced it with a corporate adjusted gross income tax, with a rate of 8.5 percent for corporations and a rate of 3.4 percent for pass through entities (e.g. sole proprietorships, partnerships, and S corporations).[14] Illinois Democratic Governor Rod Blagojevich proposed a gross receipts tax in 2007, but his efforts were unsuccessful.

Ohio's gross receipts tax, the Commercial Activity Tax (CAT), was established in 2005. A 2011 study of the CAT concluded that it had "slightly reduced the overall progressivity of Ohio's tax system while simultaneously improving its (1) efficiency, (2) compliance, and (3) administration."[15] Ohio's CAT has a single rate (0.026 percent), which does not vary by industry and was phased in over a five year period.

Summarizing the comparison of experiences across states (see Appendix A), we observe the following:

- Gross receipt fees and taxes have imposed different (and generally) low rates across industries. However, there are significant exemptions and deductions, particularly for the financial sector (banks and insurance companies).
- Numerous states have established gross receipts tax structures in such a way as to avoid a "cliff effect," which was a criticism of the 2014 Education Initiative (margin tax).[v]
- Legislatures have codified rates in state law.
- States have revised gross receipts tax policies, often to address treatment of corporations versus pass-through entities (e.g. sole proprietorships, limited liability partnerships, limited liability companies, and S corporations, etc.).
- The different tax or fee rates across industries inject a layer of complexity into the structure. State lawmakers have often shortchanged time on the front end to clarify the treatment of business operations prior to implementing the gross receipts fee or tax.[vi]

5. Revenue-generating instruments based on gross receipts have been proposed before in Nevada

In the course of the last 15 years, Nevada's decision makers have considered a number of tax proposals designed to increase revenues to meet increased demand for public goods and services and infrastructure needs, all of which was fueled by Nevada's rapid population growth. Critics of the revised Business License Fee have argued that the proposal is similar to The Education Initiative (margin tax), which was defeated at the ballot in November 2014.[16] Addressing this criticism, the Office of the Governor stated, "As proposed, the Business License Fee balances the burden among the State's capital and labor-intensive businesses, limits the potential for pyramiding, does not require the formation of an

[v] The "cliff effect" describes the scenario in which a business with gross receipts less than a predetermined threshold amount has no liability; however once the business has gross receipts that equate to the threshold amount plus $1, the business suddenly has a tax liability.

[vi] In Washington, which has a gross receipts tax, critics have voiced concern about the unclear industry classification system. Industry classifications vary depending on what the business does and where it does it. For example, if a factory in Seattle sells its product to a customer in Washington State, it gets taxed at the rate for wholesalers, but if it sells its products out of state, the factory is considered a manufacturer, which has varying rates.

in-state IRS, reflects differences among industries, and imposes a burden on taxpayers less than half of what the other taxes would have generated."[17]

In the pages that follow (and Appendix B), we compare the revised Business License Fee structure to the 2003 Gross Receipts proposal, the 2011 Margin Tax, the 2014 Margin Tax, the current Modified Business Tax system, and the Tax Foundation's recommendation to increase the Modified Business Tax to 2.0 percent. The tables in Appendix B present the calculation of each of the proposals for a number of industries and calculate the effective tax rate for each. Specifically, we replicate the four examples provided by the Office of the Governor and add examples from a number of other industries. Table 2 presents a summary of effective tax rates across our sample of industries. Below, we briefly describe the elements of each tax proposal.

2015 Business License Fee

Governor Sandoval has proposed restructuring the Business License Fee, which has been introduced as Senate Bill 252. The current Business License Fee is $200 per year. Under the Governor's proposal, the minimum annual fee would be increased to $400. The amount of the fee would vary by industry and by the amount of gross receipts, with a maximum annual fee of $4.3 million.

The Business License Fee is a simplified version of the Texas Franchise Tax, which was the basis for the Nevada margin tax proposals in 2011 and 2014. The Business License Fee tax rate for each industry is derived based on the effective tax rates experienced through the Texas Franchise Tax. Under the Franchise Tax, the tax is calculated by taking total revenue and subtracting the larger of: (a) cost of goods sold; (b) employee compensation; or (c) 30 percent of revenue. Instead of creating a tax where Nevada taxpayers would need to calculate all of these elements, the Governor calculated the effective tax rate experienced by each industry under the Texas Franchise Tax. The Governor then made adjustments to the rates for retailers, wholesalers, restaurant operators, and accommodations. The rates were then proportionally reduced to generate the amount of revenue desired from the proposed Business License Fee.

To simplify administration, the State would not calculate a unique tax amount for each business. Instead, the same tax amount would apply for all business with revenue that falls within a specified range. The first range is $0 to $125,000. The starting point of each subsequent range is 15 percent higher than the starting point of the previous range. The tax rate is applied to the midpoint of each range to produce the amount of tax for that range. From one year to the next, the actual tax rate paid by each business will vary depending on where its revenue falls within the range. Businesses with revenue on the low end of the range would have a higher tax rate than a business on the upper end of the range.

While all businesses would be required to pay the fee, the Business License Fee includes more exemptions to revenue than any of the other previous proposals. Some of these exemptions include: revenue subject to the gaming percentage fee; revenue subject to the net proceeds of minerals tax, revenue subject to insurance taxes; Federal revenue received by hospitals and health care providers; payments for employee costs received by employee leasing companies; revenues from facilities on Federal land; and pass through revenue (SB 252, Section 20). One notable issue is that only revenue subject to the gaming percentage fee (under NRS 463.370) would be exempt. Businesses that pay other gaming taxes would not receive an exemption.

2003 Gross Receipts Tax Proposal

In 2003, Governor Kenny Guinn proposed a gross receipts tax. While there was considerable public discussion, the proposal was not adopted. Instead, the Legislature adopted the Modified Business Tax, which is based on payroll in lieu of gross receipts.

Governor Guinn's proposal was based on the recommendations of the Governor's Task Force on Tax Policy in Nevada, which completed its work in 2002.[18] Both proposals were based on gross receipts, had a standard deduction, and a single tax rate of 0.25 percent. The amount of this deduction was $350,000 under the Task Force's proposal and $450,000 under Governor Guinn's proposal. The goal of the deduction was to exempt small businesses and reduce regressivity of the tax.[19] Under the Task Force's proposal approximately 50 percent of businesses would be exempt while under Governor Guinn's proposal, approximately 60 percent would be exempt.[20]

Governor Guinn's proposal included several key exemptions to gross receipts, including: gaming revenue subject to the gaming percentage fee; gaming revenue subject to the restricted slot license fee; revenue subject to insurance taxes; and pass through revenue. While an exemption for mining was not called out directly in the bill, the Governor's Office testified that revenue already taxed under the Net Proceeds of Minerals tax could not be taxed under the *Nevada Constitution* and would therefore be exempt from the gross receipts tax.[21]

The intent of the proposal was to provide a broad-based and stable revenue source that would help the State fund its long-term needs. Criticisms of this tax included: it did not take into account profitability; it would discourage investment and maintenance of assets; it would disparately impact high volume, low-margin industries; and it could lead to increased prices because inputs would be taxed.[22]

The lack of data to accurately estimate revenue from the proposed tax was cited as a major concern of the Task Force, which recommended a delay in implementation so that better data could be collected. In its final report, the Task Force wrote, "The base estimates that are the foundation for our revenue projections rely on data provided by a number of third-party sources. These data were often inconsistent and were uniformly incomplete. We highly recommend that the State undertake a data collection effort prior to implementing the [proposed tax]. Doing so would allow legislators, tax officials, and budget analysts to better estimate the number of businesses operating in Nevada, their gross revenues, and their number of employees. Having reliable data in these areas is critical to establishing an appropriate tax rate as well as appropriate exemption levels."[23]

2011 Margin Tax

In 2011, a margin tax was proposed as amendment 6801 to Senate Bill 491.[24] The Legislature conducted extensive hearings on this proposal but did not take action. In the waning hours of the 2011 Legislative Session, the Assembly introduced a similar measure to implement a margin tax (Assembly Bill 582), but did not take action.

This proposal was based on the Texas' Franchise Tax, which is a margin tax based on gross receipts. As proposed, the 2011 Nevada margin tax would apply to all businesses with total revenue exceeding $1 million. Total revenue would be reduced by the higher of (1) cost of goods sold; (2) employee compensation; or (3) 30 percent of revenue. After taking this deduction, a tax rate of 0.8 percent would be applied to the taxable margin. The total tax would then be reduced by a credit for the amount of

Modified Business Taxes paid by the business. This proposal also included provisions to phase out the Modified Business Tax.[vii]

The 2011 Margin Tax included several key exemptions from the calculation of total revenue, including: revenue subject to the gaming percentage fee; Federal revenue received by hospitals and health care providers; payments for employee costs received by employee leasing companies; and pass through revenue. Notably, the proposal did not include three exemptions that were part of the 2003 proposal: receipts subjected to the restricted slot license fee; receipts subject to the Net Proceeds of Minerals tax; or revenue subject to insurance taxes.

As with the 2003 proposed gross receipts tax, the intent of the margin tax was to create a broad-based, stable source of revenue. The criticisms of the tax were similar to those voiced in 2003. The margin tax was also criticized for its differential impact on business, particularly capital intensive businesses with low payroll and no cost of goods sold, which would have smaller deductions than other businesses.[25]

2014 Margin Tax (Question 3: The Education Initiative)

In 2014, Nevada voters considered Question 3, The Education Initiative, which would have implemented a margin tax based on gross receipts.[26] This measure was soundly defeated at the polls with 78.7 percent of voters rejecting the proposal.[27]

The measure was very similar to the 2011 proposal. However, the tax rate was set at 2 percent instead of 0.8 percent, and there was no proposal to phase out the Modified Business Tax. In addition, all of the funds were earmarked to go to the Distributive School Account to be used for K-12 education.

Additionally, the exemptions to the calculation of total revenue differed from the 2011 proposal. Question 3 included exemptions for revenue subject to the gaming percentage fee and pass-through revenue, but did not include exemptions for health care providers or employee leasing companies that were included in the 2011 proposal. As with the 2011 proposal, Question 3 did not include three exemptions that were part of the 2003 proposal: receipts subjected to the restricted slot license fee; receipts subject to the Net Proceeds of Minerals tax; or revenue subject to insurance taxes.

The criticisms levied against Question 3 were similar to arguments made in 2003 and 2011. There was also concern that the higher tax rate of 2 percent was unduly burdensome to businesses since it was not based on profit. In addition, there was concern that the funds would not actually result in increased funding for education because the Legislature could divert existing funds going to education to other purposes.

Modified Business Tax

The State implemented the Modified Business Tax in 2003, which is a tax based on payroll. There are two rates for the Modified Business Tax, one for financial institutions and a second for other businesses. For both taxes, wages are reduced by certain amounts paid for health insurance or health benefit plans for

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[vii] Here we note that the Tax Liability Comparisons table provided by Governor Sandoval assumes that the 2011 Margin Tax proposal provided an exemption for at least the first $1 million in revenue for all businesses (see Appendix B). While this idea was discussed in hearings, it was not included in Amendment 6801 to SB 491 of the 2011 Session.

employees before applying the tax. On a statewide basis, the amount deducted for health care expenses was 7.6 percent of gross wages in FY 2014.[28]

For financial institutions, the tax is calculated by multiplying taxable wages by 2 percent (NRS 363A.130). For other businesses, the first $85,000 in taxable wages is exempt each quarter. A tax rate of 1.17 percent is applied to the remaining amount on a quarterly basis (NRS 363B.110). Effective July 1, 2015, the rate for nonfinancial businesses is set to decrease from 1.17 percent to 0.63 percent due to a sunset provision. The Governor has proposed making the current rate permanent.

The Modified Business Tax has been criticized for having a disproportionate impact on businesses that are human-capital intensive, such as health care and accommodations and food services. It has also been criticized for not being broad-based since only 12,191 nonfinancial businesses and 1,562 financial businesses paid the tax in FY 2014, equating to roughly 4 percent of all businesses.[29] The Modified Business Tax has become a significant revenue source for the General Fund. In the FY 2014, it raised a total of $385 million, which represented 12.5 percent of total General Fund revenue.[30]

6. The Business License Fee rate is lower than the 2014 Education Initiative (margin tax)

An analysis of the comparative industry examples yields the following observations (see Table 2):

- To analyze the impact of the proposed Business License Fee on each business, it is important to look at the combined impact of the Business License Fee and the Modified Business Tax as shown in Appendix B.
- While the Business License Fee and the 2014 Education Initiative proposal both contain elements from the Texas Franchise Tax, Table 2 reveals that the effective tax rate (total tax liability as a share of gross receipts) is lower under the Business License Fee than the 2014 margin tax, across all industries.
- The effective tax rate for the industries presented here varies from 0.133 to 0.630 percent.
- For a number of industries, including construction, insurance, small medical practitioners, and mining companies, the Business License Fee has an estimated lower effective tax rate than the Tax Foundation's proposal to increase the Modified Business Tax to 2.0 percent.
- For other industries, including automotive retail, real estate, and large casino/gaming operators, the BLF is only slightly higher than the Tax Foundation's recommendation to increase the MBT to 2.0 percent.
- Small business owners and sole proprietorships, who currently pay a $200 business license fee, would have to pay a $400 fee under the revised Business License Fee structure. This represents a tax increase of 100 percent.

Table 2. Comparison of Effective Tax Rates under Business License Fee and other Proposals[viii]

Governor Examples	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)
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WHAT WE DON'T KNOW

While the Guinn Center believes that the proposed Business License Fee contains several elements of sound tax policy, there are a number of aspects of the proposal that remain unclear and warrant consideration.

1. What are the Business License Fee revenue estimates by industry?

Detailed information regarding how the $250 million annual revenue estimate was calculated has not been shared with the public so it is difficult to assess whether the tax would provide the desired amount of revenue. Information provided to the public should include: total gross receipts assumed for each industry; the estimated number of businesses that would fall into each revenue range for each industry; and the total revenue estimate for each industry.

The Legislature should be cautious in the amount of revenue it assumes will be received from the Business License Fee because Nevada does not currently collect data on gross receipts and there is not an external source with accurate, detailed information. As previously noted, back in 2002, the Governor's Task Force recommended that data on gross receipts be collected prior to implementation. Other states have faced challenges in estimating revenue from new taxes. For example, Texas had difficulty estimating revenue when it transitioned to a margin tax. As we noted in our Fact Sheet on the Education

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[viii] Our revenue calculations are based on gross receipts data taken from the Office of the Governor. http://gov.nv.gov/uploadedFiles/govnvgov/Content/News_and_Media/Press/2015_Images_and_Files/BusinessLicenseFeeFacts.pdf; Fair, Anderson & Langerman. Nevada Margin Tax Impact Analysis, RCG Economics, August 2014 http://www.rcg1.com/wp-content/uploads/2014/08/Website-Post-2014-8-6-RCG-Margin-Tax-Rpt-FINAL.pdf; the 2014 Gaming Abstract http://gaming.nv.gov/modules/showdocument.aspx?documentid=9646)l and the Internal Revenue Service Statistics of Income (2011), http://www.irs.gov/uac/SOI-Tax-Stats-Returns-of-Active-Corporations-Table-6.

Initiative (margin tax), "At the outset, the original revenue estimate in Texas was $5.9 billion; however, the actual revenue was $4.5 billion, which amounts to a 24 percent difference in estimated versus realized revenues.[31] According to the Tax Foundation, Texas "tax officials did not have a good understanding of how the tax would work, how much revenue it would bring in, or what to expect as they began collection. Because of this, the year before the tax took full effect, officials required that large companies file an informational tax return."[32]

2. Is the allocation of revenues generated by the Business License Fee toward the K-12 education system made explicit in the proposed legislation?

In his State of the State address, Governor Sandoval recommending providing new funding to more than twenty K-12 programs.[ix] He then proposed paying for these initiatives with the modified Business License Fee. However, there is not a single reference in SB 252 of using the revenues generated by the Business License Fee for education.[33] As noted by Dr. Susanne Trimbath, who authored the Las Vegas Global Economic Alliance report, *Nevada's 2015 Proposal for Business License Fees*, "legislators should consider specifying that collections will be held aside for education funding."[34] The Legislature will need to weigh the costs and benefits of permanently earmarking these funds for education purposes against the flexibility of the Legislature to respond to other future needs.

3. How were business license fee rates determined?

The logic for basing the Business License Fee rates on the effective tax rates resulting from the Texas Franchise Tax is not immediately clear. It is unknown whether the proposed rates took into account the profitability of the industry and the industry's contribution to Nevada's GDP. The "Business License Fee Facts" document released by the Governor's Office indicates that implementing different rates for each industry was meant to avoid problems inherent in a typical gross receipts or flat taxes that "treat every business the same, disparately impacting small businesses or businesses with large sales volumes but very low margins."[35] Based on this statement, one might expect that the proposed rates for each industry are designed to serve as a proxy for the profitability of each industry or reflect the contribution of the industry to the State's gross domestic product.

Our analysis shows that the proposed rates are not mathematically correlated to the relative profitability of each industry (see Table 1, column C). As stated earlier, rail transportation has the highest Business License Fee rate (0.362 percent), and yet the industry's average profitability rate is only 0.62 percent. In addition, management of companies has the highest profitability at 62 percent but has a Business License Fee rate of 0.149 percent. An examination of the effective tax rate paid under the Federal Corporate Income Tax as the basis for establishing tax rates could provide better information on the typical profit margin for each industry and could help design rates that take into account the profitability of each industry.

[ix] For more on this, please see the Guinn Center's report, Examining Nevada's Education Priorities: Which Initiatives are Worth the Investment? (co-authored with Nevada Succeeds). http://guinncenter.org/wp-content/uploads/2015/02/Guinn-Center-Nevada-Succeeds-Education-Priorities-FINAL.pdf

4. What is the combined impact of the revised Business License Fee and the Modified Business Tax?

As the Legislature deliberates how to structure the tax rates, it is important to consider the combined effect on each industry of the Business License Fee and the Modified Business Tax. For example, the Business License Fee tax rate for health services is 0.208 percent. For a sample small medical practitioner, the combined impact of the Business License Fee and Modified Business Tax amounts to an effective tax rate of 0.607 percent (Appendix B, Example 3). Once the estimated revenue for each industry is known, the Legislature should also consider how well the combined impact of the two taxes reflects each industry's share of State GDP.

Additionally, varying rates across industries creates an added layer of complexity, and leaves the structure vulnerable to attempts by businesses to game the system. In Texas following the implementation of the Texas Franchise Tax, officials found that "Some taxpayers, in order to cut their franchise tax liability in half, have classified themselves into a category that the Comptroller has challenged."[36] Two states, including Kentucky and Ohio, have a flat fee based on gross receipts that does not vary by industry. Other states, including Texas, have attempted to limit the variation in rates to two or three for broad categories (e.g. in Texas, rates are 1.0 percent for most entities, 0.5 percent for wholesalers and retailers, and 0.575 percent for businesses with $10 million or less in Total Revenue).[37]

5. Will the Business License Fee avoid pyramiding?

The "Business License Fee Facts" document released by the Office of the Governor indicates that the revised fee structure limits the potential for pyramiding. Briefly, pyramiding occurs when all transactions are taxed, including intermediate business-to-business purchases of supplies, raw materials and equipment.[38] This creates a layer of taxation at each stage of production and can lead to higher costs for consumers. Gross receipts taxes are often criticized for leading to tax pyramiding because they allow few or no deductions and are not based on profit. In 2003, the Governor's Task Force on Tax Policy acknowledged that the proposed Gross Receipts Tax could be criticized for creating pyramiding because it included only a $450,000 standard deduction and could lead to price increases.[39] Similarly, opponents of The Education Initiative argued that the margin tax proposed in 2014 would lead to tax pyramiding.[40] While the margin tax allowed deductions for cost of goods sold and employee compensation, opponents argued that it could lead to pyramiding because it was not a tax on profit.

The Business License Fee is also based on gross receipts. While no deductions of costs are allowed, deductions are already built into the tax rate for each industry since the tax rates are based on the effective tax rates experienced under the Texas Franchise Tax. The Governor asserts that the Business License Fee limits tax pyramiding. While deductions are implicitly included in the tax rates, the Business License Fee is still not a tax based on profitability of the business or industry. Therefore, some potential for tax pyramiding remains. However, the fact that the tax rates are generally lower than the effective tax rates in Texas helps to limit the magnitude of tax pyramiding.[x]

[x] An alternative to gross receipts taxes, which have a potential for pyramiding, are value-added taxes.

RECOMMENDATIONS

1. Collect data on gross receipts prior to the implementation of any revenue plan.

A March 2015 Pew Charitable Trusts and the Nelson A. Rockefeller Institute of Government study, *Managing Volatile Tax Collections in State Revenue Forecasts*, identified the challenges in forecasting revenues. Among the conclusions are: (1) Forecasting errors are on the rise, and the increase is driven by the growth of revenue volatility—year-to-year swings in tax collections; (2) corporate income taxes (including gross receipts) are the hardest to estimate; and (3) smaller states, like Nevada, and those that are dependent on a few economic sectors for their tax revenue tend to have larger percentage errors than more populous or economically diverse states.[41]

Collectively, these challenges suggest that BLF revenues will be difficult to estimate with any precision. Similar to what occurred in Texas, State Legislators should pass legislation (even before a revenue plan is approved) that requires large companies to file an informational tax return for the first quarter of 2015 before June 30th and submit it to the Business License Office (and the Department of Taxation). The Legislature should also require the State to collect and publish gross receipts data annually. While this data likely will not be collected in time to inform the design of the Business License Fee rates, this measure will enable the State to begin providing more accurate revenue estimates in the short-term and in future years. Additionally, the data compiled by the Office of the Governor forecasting business license fee revenue estimates should be made available to the public.

2. Ensure Business License Fee rates are transparent, simple, and reflect the profitability of the industry.

Business License Fee rates should reflect and align with the general profitability of the industry, as well as the contribution of the industry to the State's Gross Domestic Product. For the ease of implementation and to improve transparency, the State may want to explore a single or limited rate schedule based on gross receipts (see Appendix A for the structure adopted by Kentucky and Ohio) or reduce the variation in license fee rates to a more limited number of industry categories, as has been done in Texas.

3. Consider the advantages of having a single or limited license fee rate schedule and phasing in over a 5 year period.

The revised Nevada Business License Fee structure has nineteen different rates. The different rates introduce greater complexity and uncertainty, and provide opportunities for businesses to game the system, similarly to what occurred in Texas. In evaluating the Texas Franchise Tax, officials remarked, "Complexity in the law is more than matched by the complexity of business models. Many businesses encompass multiple activities that cross over the traditional lines of production, trade, and services. How a particular business model fits up to the tax provisions can be a difficult call. The likely impact on tax revenue when complex tax provisions meet up with complex business models is that it will fall short of estimates if those estimates were based on traditional business models."[42]

As such, Nevada lawmakers may want to consider the advantages of having a single rate or limited rate schedule, similar to the gross receipts tax structure implemented in Ohio and Kentucky, and the Nevada 2003 Gross Receipts tax proposal (proposed rate of 0.25 percent). Ohio's Commercial Activity Tax, for example, has a single rate (0.26 percent on gross receipts over $1 million) and was phased in over five years. Given the difficulty in forecasting new tax revenues and the absence of current data on gross receipts, Nevada lawmakers may want to consider the advantages of establishing a target rate(s) and phasing the plan in over a period of time.

4. Phase out the Modified Business Tax and adjust rates for the Business License Fee over time to ensure revenue targets are met.

As noted by the Tax Foundation and others, the Modified Business tax is not broad-based and is only paid by approximately 4 percent of the businesses operating in Nevada. It also disproportionately affects businesses that rely heavily on human capital. The Guinn Center suggests phasing out the Modified Business Tax. The Modified Business Tax could be phased out and Business License Fee rates could be adjusted accordingly. The immediate collection of gross receipts data will help tax officials determine the timetable for phasing out the Modified Business Tax.

5. Explore the advantages of explicitly earmarking Business License Fee revenues toward K-12 and higher education in the legislation.

Governor Sandoval proposed a revised Business License Fee structure as a means of funding his education priorities. As the Guinn Center commented previously, "If the State Legislature maintains the existing General Fund appropriation to the Distributive School Account (DSA), the new margin tax revenue will result in additional funding for education. If the State Legislature reduces the existing General Fund appropriation to the DSA, then K-12 education would not receive the full benefit of the margin tax and existing General Fund monies would be freed up for other uses." [43] Additionally, "There is precedent for the Nevada Legislature using funds intended to supplement education to backfill budgetary shortfalls. Initiative Petition 1 (IP1) is a 3 percent additional room tax for Clark and Washoe counties that was approved by the Nevada Legislature in 2009. Under IP1, the revenue from the room tax was supposed to provide supplemental funding to K-12 education beginning in fiscal year 2011-2012. However, due to fiscal shortfalls, the Legislature approved using these funds as a state funding source for education in fiscal years 2011-2012 through 2014-2015, rather than appropriating the funds to schools as a supplemental funding source, as originally required under IP1."[44]

Given historical precedent, the Legislature should consider the advantages of specifically earmarking revenues generated with the modified Business License Fee to Nevada's K-12 and higher education system.

6. Ensure that any legislative tax reform proposal helps improve Nevada's tax base

As the Tax Foundation report noted, Nevada's current tax structure "magnifies economic volatility due to its dependence on tourism, its narrow bases, and its high rates" and "is narrow, complex, and inequitable, and it will become increasingly unworkable as the state diversifies and realigns its economy."[45] As the Legislature considers the revised Business License Fee proposal and other tax proposals, Legislators must ask whether a given proposal meets four objectives:

- Does it move Nevada away from industry-specific taxes or even sector-specific taxes (e.g. services tax)?
- Does it broaden the State's base and lower rates?
- Does it address inequities, hyper-volatility and overdependence on key industries?
- Combined with Nevada's existing tax structure, does the tax plan serve to simplify and broaden the state's overall tax code?

Conclusion

The Guinn Center believes that the Business License Fee contains several elements of good tax policy.

- The Business License Fee rates are low. In fact, the effective tax rate under the modified Business License Fee rate is lower than the rate under the 2014 Education Initiative (margin tax).
- The Business License Fee is broad-based. While revenue subject to some industry specific taxes is exempt, the Business License Fee will affect all industries.
- The Business License Fee expands the revenue base. Similar to other states, the modified Business License Fee will affect all businesses, including S corporations, limited liability partnerships, and other pass-through entities. Unlike the Modified Business Tax that is paid by only 4 percent of businesses, the Business License Fee will include the vast number of businesses operating in Nevada.
- The Business License Fee avoids the "cliff effect" by taking into account a business's ability to grow over time.

In short, the structure of the Business License Fee embodies several characteristics of good tax policy: it is broad-based, stable, and equitable. While we have some concerns with the determination of license fee rates and whether they adequately account for the profitability of each industry, we believe that the structure of the Business License Fee is worthy of consideration by Nevada Legislators.

About the Kenny C. Guinn Center for Policy Priorities

The Kenny C. Guinn Center for Policy Priorities is a 501(c)(3) nonprofit, bipartisan, think-do tank focused on independent, fact-based, relevant, and well-reasoned analysis of critical policy issues facing the State of Nevada and the Intermountain West. The Guinn Center engages policy-makers, experts, and the public with innovative, fact-based research and analysis to advance policy solutions, inform the public debate, and expand public engagement. The Guinn Center does not take institutional positions on policy issues.

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Appendix A. Description of states that have imposed gross receipt taxes on businesses

State	Name	Amount	Notes
Arizona	Arizona Transaction Privilege Tax[46]	1.5 - 4.0 percent[47]	The TPT is a tax on vendors for the privilege of transacting business in Arizona. Arizona does not have a sales tax.
Delaware	Gross Receipts Tax	0.1006 - 0.7543 percent.[48]	Rates were codified in Delaware legislation[49]. State offers significant exclusions and deductions.[50]
Hawaii	General Excise Tax[51]	4.0 - 4.5 percent	Businesses are subject to GET on their gross receipts from doing business in Hawaii. Hawaii does not have a sales tax.
Kentucky	Limited Liability Entity Tax (LLET)[52]	The tax rate is $950 per $1 million of gross receipts and $7,500 per $1 million of gross profits. There is a minimum tax of $175 on each corporation pass through entity.[53]	The LLET is a tax on the Kentucky gross receipts or gross profits of corporations and limited liability tax pass-through entities (e.g. limited liability company, S-corporation). There is a “small business” exemption for businesses with gross receipts or profits less than $3 million, which is phased out between $3 million and $6 million, so that taxable entities with gross receipts and gross profits greater than $6 million pay the full LLET. Rates are codified in legislation.[54]
Michigan	Michigan Gross Receipts Tax (repealed in 2011)	0.8 percent[55]	Businesses with less than $350,000 are exempt. There was a lower rate for businesses with gross receipts between $350,000-$700,000 so as to avoid the ‘cliff effect.’ Note: The Gross Receipts Tax was repealed in 2011 and replaced with corporate income tax of 6 percent. The primary difference is that corporate income tax is paid only by C corporations; sole proprietorships, limited partnerships and other pass-through entities will not have to pay corporate income tax.
New Jersey	Minimum tax on gross receipts as part of corporate tax[56]	Fee varies according to level of gross receipts	As part of minimum tax for C corporations. Fee schedule is as follows: gross receipts less than $100,000 = $500 tax; gross receipts at least $100,000 but less than $250,000 = $750 tax; gross receipts at least $250,000 but less than $500,000 = $1,000 tax; gross receipts at least $500,000 but less than $1,000,000 = $1,500 tax; and gross receipts more than $1,000,000 = $2,000 tax.

State	Name	Amount	Notes
New Mexico	Gross Receipts Tax	5.125 - 8.6875 percent	New Mexico does not have a sales tax.
Ohio	Commercial Activity Tax (CAT)	$1 million in taxable gross receipts are taxed at $150. Receipts above $1 million are taxed at the rate of 0.2600 percent, which was phased in over a 5 year period.	Applies to all businesses, including sole proprietorships, partnerships, LLCs, S corporations, and with taxable gross receipts of more than $150,000 in the calendar year are subject to the CAT. Businesses that have gross receipts less than $150,000 are not subject to CAT. Rates are codified in state law.[57] Financial institutions, insurance companies and some utilities are exempt.
Pennsylvania	Gross receipts tax	Rates vary by industry.	Pennsylvania imposes gross receipts taxes on private bankers; pipeline, conduit, steamboat, canal, slack water navigation and transportation companies; utilities; telecommunications companies; express companies; palace car and sleeping car companies; freight and oil transportation companies, and managed care organizations.
Texas	Franchise Tax	Rates are 1.0 percent for most entities; 0.5 percent for qualifying wholesalers and retailers; 0.575 percent for entities with $10 million or less in total revenue.[58]	The tax base is the taxable entity's margin. Margin equals the lowest of three calculations: (1) total revenue minus cost of goods sold; (2) total revenue minus compensation; or (3) total revenue times 70 percent.
Washington	Business and Occupation Tax	Rates vary by industry between 0.13 and 1.6 percent.[59]	General rates are as follows: Retailing= 0.471 percent; Wholesaling and manufacturing= 0.484 percent; Service & Other Activities= 1.5 percent. Hundreds of exemptions and deductions.
West Virginia	Business and Occupation Tax (BOT)	Rate varies by industry.	The gross receipts tax (BOT) has been scaled back and is no longer a broad-based tax. Today, the BOT is only imposed on public utilities, electricity generators, natural gas storage operators, and synthetic fuel manufacturers.[60] Cities can also impose the BOT.

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Appendix B

Governor's Tax Scenarios

A. Construction

Business License Fee		**Gross Receipts Tax: 2003 Proposal**	
A Receipts as defined	2,000,000	A Receipts as defined	2,000,000
B Tax Rate for Industry	0.091%	B Standard Deduction	450,000
C Range for Industry	1,779,074 to 2,045,935	C Taxable Amount (A-B)	1,550,000
D Business License Fee Due	1,740	D Tax Rate	0.25%
E Plus MBT current rate	2,576	E Tax Due (C*D)	3,875
F Total Tax Due (D+E)	4,316		
Effective Tax Rate (F/A)	**0.216%**	**Effective Tax Rate (E/A)**	**0.194%**

A. Construction

Margin Tax 2011, modified w $1M deduction		**Margin Tax 2014**		**Modified Business Tax**	**Current Rate**	**2% Rate**
A Receipts as defined	2,000,000	A Receipts as defined	2,000,000	A Receipts as defined	2,000,000	2,000,000
B Deduction of first $1 million	1,000,000	B Deductions	-	B Annual Payroll	602,300	602,300
C Net Revenue (A-B)	1,000,000	C Net Revenue (A-B)	2,000,000	C Health Cost (7%)	42,161	42,161
D Cost of Goods Sold	Unknown	D Cost of Goods Sold	Unknown	D Taxable Wages (B-C)	560,139	560,139
E Employee Compensation	Unknown	E Employee Compensation	Unknown	E Quarterly Taxable Wages (D/4)	140,035	140,035
F 30% of Net Revenue (30%*C)	300,000	F 30% of Net Revenue (30%*C)	600,000	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	300,000	G Deduction (Max of D,E,F)	600,000	G Taxable Quarterly Amount (E-F)	55,035	55,035
H Margin (C-G)	700,000	H Margin (C-G)	1,400,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	644	1,101
J Tax (H*I)	5,600	J Tax (H*I)	28,000	J Annual Tax (I*4)	2,576	4,403
K Credit for MBT Paid (assume current rate)	2,576	K Credit for MBT Paid (assume current rate)	2,576			
L Net Margin Tax Due (J-K)	3,024	L Net Margin Tax Due (J-K)	25,424			
M Total tax due, with MBT (K+L)	5,600	M Total tax due, with MBT (K+L)	28,000	J Total tax due	2,576	4,403
Effective Tax Rate (M/A)	**0.280%**	**Effective Tax Rate (M/A)**	**1.400%**	**Effective Tax Rate (J/A)**	**0.129%**	**0.220%**

Appendix B

Governor's Tax Scenarios

B. Financial Activities

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	5,500,000	A Receipts as defined	5,500,000
B Tax Rate for Industry	0.121%	B Standard Deduction	450,000
C Range for Industry	5,442,241 to 6,258,578	C Taxable Amount (A-B)	5,050,000
D Business License Fee Due	7,106	D Tax Rate	0.25%
E Plus MBT current rate	4,610	E Tax Due (C*D)	12,625
F Total Tax Due (D+E)	11,716		
Effective Tax Rate (F/A)	**0.213%**	**Effective Tax Rate (E/A)**	**0.230%**

B. Financial Activities

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014		Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	5,500,000	A Receipts as defined	5,500,000	A Receipts as defined	5,500,000	5,500,000
B Deduction of first $1 million	1,000,000	B Deductions	-	B Annual Payroll	250,820	250,820
C Net Revenue (A-B)	4,500,000	C Net Revenue (A-B)	5,500,000	C Health Cost (7%)	20,316	20,316
D Cost of Goods Sold	Unknown	D Cost of Goods Sold	Unknown	D Taxable Wages (B-C)	230,504	230,504
E Employee Compensation	Unknown	E Employee Compensation	Unknown	E Quarterly Taxable Wages (D/4)	57,626	57,626
F 30% of Net Revenue (30%*C)	1,350,000	F 30% of Net Revenue (30%*C)	1,650,000	F Quarterly Deduction	-	-
G Deduction (Max of D,E,F)	1,350,000	G Deduction (Max of D,E,F)	1,650,000	G Taxable Quarterly Amount (E-F)	57,626	57,626
H Margin (C-G)	3,150,000	H Margin (C-G)	3,850,000	H Tax Rate	2.00%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	1,153	1,153
J Tax (H*I)	25,200	J Tax (H*I)	77,000	J Annual Tax (I*4)	4,610	4,610
K Credit for MBT Paid (assume current rate)	4,610	K Credit for MBT Paid (assume current rate)	4,610			
L Net Margin Tax Due (J-K)	20,590	L Net Margin Tax Due (J-K)	72,390			
M Total tax due, with MBT (K+L)	25,200	M Total tax due, with MBT (K+L)	77,000	J Total tax due	4,610	4,610
Effective Tax Rate (M/A)	**0.458%**	**Effective Tax Rate (M/A)**	**1.400%**	**Effective Tax Rate (J/A)**	**0.084%**	**0.084%**

Governor's Tax Scenarios

C. Health Services

Business License Fee	
A Receipts as defined	27,000,000
B Tax Rate for Industry	0.208%
C Range for Industry	25,319,462 to 29,117,381
D Business License Fee Due	56,481
E Plus MBT current rate	46,513
F Total Tax Due (D+E)	102,994
Effective Tax Rate (F/A)	**0.381%**

Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	27,000,000
B Standard Deduction	450,000
C Taxable Amount (A-B)	26,550,000
D Tax Rate	0.25%
E Tax Due (C*D)	66,375
Effective Tax Rate (E/A)	**0.246%**

C. Health Services

Margin Tax 2011, modified w $1M deduction	
A Receipts as defined	27,000,000
B Deduction of first $1 million	1,000,000
C Net Revenue (A-B)	26,000,000
D Cost of Goods Sold	Unknown
E Employee Compensation	Unknown
F 30% of Net Revenue (30%*C)	7,800,000
G Deduction (Max of D,E,F)	7,800,000
H Margin (C-G)	18,200,000
I Tax Rate	0.80%
J Tax (H*I)	145,600
K Credit for MBT Paid (assume current rate)	46,513
L Net Margin Tax Due (J-K)	99,087
M Total tax due, with MBT (K+L)	145,600
Effective Tax Rate (M/A)	**0.539%**

Margin Tax 2014	
A Receipts as defined	27,000,000
B Deductions	-
C Net Revenue (A-B)	27,000,000
D Cost of Goods Sold	Unknown
E Employee Compensation	Unknown
F 30% of Net Revenue (30%*C)	8,100,000
G Deduction (Max of D,E,F)	8,100,000
H Margin (C-G)	18,900,000
I Tax Rate	2.00%
J Tax (H*I)	378,000
K Credit for MBT Paid (assume current rate)	46,513
L Net Margin Tax Due (J-K)	331,487
M Total tax due, with MBT (K+L)	378,000
Effective Tax Rate (M/A)	**1.400%**

Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	27,000,000	27,000,000
B Annual Payroll	4,620,450	4,620,450
C Health Cost (7%)	304,950	304,950
D Taxable Wages (B-C)	4,315,500	4,315,500
E Quarterly Taxable Wages (D/4)	1,078,875	1,078,875
F Quarterly Deduction	85,000	85,000
G Taxable Quarterly Amount (E-F)	993,875	993,875
H Tax Rate	1.17%	2.00%
I Quarterly Tax (G*H)	11,628	19,878
J Annual Tax (I*4)	46,513	79,510
J Total tax due	46,513	79,510
Effective Tax Rate (J/A)	**0.172%**	**0.294%**

Governor's Tax Scenarios

D. Retail Trade

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	17,000,000	A Receipts as defined	17,000,000
B Tax Rate for Industry	0.121%	B Standard Deduction	450,000
C Range for Industry	16,647,955 to 19,145,148	C Taxable Amount (A-B)	16,550,000
D Business License Fee Due	21,639	D Tax Rate	0.25%
E Plus MBT current rate	5,741	E Tax Due (C*D)	41,375
F Total Tax Due (D+E)	27,380		
Effective Tax Rate (F/A)	**0.161%**	**Effective Tax Rate (E/A)**	**0.243%**

D. Retail Trade

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014	
A Receipts as defined	17,000,000	A Receipts as defined	17,000,000
B Deduction of first $1 million	1,000,000	B Deductions	-
C Net Revenue (A-B)	16,000,000	C Net Revenue (A-B)	17,000,000
D Cost of Goods Sold	Unknown	D Cost of Goods Sold	Unknown
E Employee Compensation	Unknown	E Employee Compensation	Unknown
F 30% of Net Revenue (30%*C)	4,800,000	F 30% of Net Revenue (30%*C)	5,100,000
G Deduction (Max of D,E,F)	4,800,000	G Deduction (Max of D,E,F)	5,100,000
H Margin (C-G)	11,200,000	H Margin (C-G)	11,900,000
I Tax Rate	0.80%	I Tax Rate	2.00%
J Tax (H*I)	89,600	J Tax (H*I)	238,000
K Credit for MBT Paid (assume current rate)	5,741	K Credit for MBT Paid (assume current rate)	5,741
L Net Margin Tax Due (J-K)	83,859	L Net Margin Tax Due (J-K)	232,259
M Total tax due, with MBT (K+L)	89,600	M Total tax due, with MBT (K+L)	238,000
Effective Tax Rate (M/A)	**0.527%**	**Effective Tax Rate (M/A)**	**1.400%**

Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	17,000,000	17,000,000
B Annual Payroll	889,400	889,400
C Health Cost (7%)	58,700	58,700
D Taxable Wages (B-C)	830,700	830,700
E Quarterly Taxable Wages (D/4)	207,675	207,675
F Quarterly Deduction	85,000	85,000
G Taxable Quarterly Amount (E-F)	122,675	122,675
H Tax Rate	1.17%	2.00%
I Quarterly Tax (G*H)	1,435	2,453
J Annual Tax (I*4)	5,741	9,814
J Total tax due	5,741	9,814
Effective Tax Rate (J/A)	**0.034%**	**0.058%**

Appendix B

Tax Scenarios Using Data from Nevada Businesses

1. Construction Subcontractor

Business License Fee		**Gross Receipts Tax: 2003 Proposal**	
A Receipts as defined	1,476,000	A Receipts as defined	1,476,000
B Tax Rate for Industry	0.091%	B Standard Deduction	450,000
C Range for Industry	1,345,234 to 1,547,019	C Taxable Amount (A-B)	1,026,000
D Business License Fee Due	1,315	D Tax Rate	0.25%
E Plus MBT current rate	4,300	E Tax Due (C*D)	2,565
F Total Tax Due (D+E)	5,615		
Effective Tax Rate (F/A)	**0.380%**	**Effective Tax Rate (E/A)**	**0.174%**

1. Construction Subcontractor

Margin Tax 2011, modified w $1M deduction		**Margin Tax 2014**		**Modified Business Tax**	**Current Rate**	**2% Rate**
A Receipts as defined	1,476,000	A Receipts as defined	1,476,000	A Receipts as defined	1,476,000	1,476,000
B Deduction of first $1 million	1,000,000	B Deductions (pass through deducted in gross)	-	B Annual Payroll	831,000	831,000
C Net Revenue (A-B)	476,000	C Net Revenue (A-B)	1,476,000	C Health Cost (14.86%)*	123,487	123,487
D Cost of Goods Sold	970,000	D Cost of Goods Sold	970,000	D Taxable Wages (B-C)	707,513	707,513
E Employee Compensation	831,000	E Employee Compensation	831,000	E Quarterly Taxable Wages (D/4)	176,878	176,878
F 30% of Net Revenue (30%*C)	142,800	F 30% of Net Revenue (30%*C)	442,800	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	970,000	G Deduction (Max of D,E,F)	970,000	G Taxable Quarterly Amount (E-F)	91,878	91,878
H Margin (C-G)	-	H Margin (C-G)	506,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	1,075	1,838
J Tax (H*I)	-	J Tax (H*I)	10,120	J Annual Tax (I*4)	4,300	7,350
K Credit for MBT Paid (assume current rate)	4,300	K Credit for MBT Paid (assume current rate)	4,300			
L Net Margin Tax Due (J-K)	-	L Net Margin Tax Due (J-K)	5,820			
M Total tax due, with MBT (K+L)	4,300	M Total tax due, with MBT (K+L)	10,120	J Total Tax Due	4,300	7,350
Effective Tax Rate (M/A)	**0.291%**	**Effective Tax Rate (M/A)**	**0.686%**	**Effective Tax Rate (J/A)**	**0.291%**	**0.498%**

Source of business data: Fair, Anderson & Langerman via Nevada Margin Tax Impact Analysis, RCG Economics, August 2014

Appendix B

Tax Scenarios Using Data from Nevada Businesses

2. Commercial Insurance Broker

Business License Fee		**Gross Receipts Tax: 2003 Proposal**	
A Receipts as defined	1,834,000	A Receipts as defined	1,834,000
B Tax Rate for Industry	0.121%	B Standard Deduction	450,000
C Range for Industry	1,799,074 to 2,045,935	C Taxable Amount (A-B)	1,384,000
D Business License Fee Due	2,323	D Tax Rate	0.25%
E Plus MBT current rate	5,100	E Tax Due (C*D)	3,460
F Total Tax Due (D+E)	7,423		
Effective Tax Rate (F/A)	**0.405%**	**Effective Tax Rate (E/A)**	**0.189%**

2. Commercial Insurance Broker

Margin Tax 2011, modified w $1M deduction		**Margin Tax 2014**		**Modified Business Tax**	**Current Rate**	**2% Rate**
A Receipts as defined	1,834,000	A Receipts as defined	1,834,000	A Receipts as defined	1,834,000	1,834,000
B Deduction of first $1 million	1,000,000	B Deductions (pass through deducted in gross)	-	B Annual Payroll	878,000	878,000
C Net Revenue (A-B)	834,000	C Net Revenue (A-B)	1,834,000	C Health Cost (11.63%)*	102,111	102,111
D Cost of Goods Sold	-	D Cost of Goods Sold	-	D Taxable Wages (B-C)	775,889	775,889
E Employee Compensation	878,000	E Employee Compensation	878,000	E Quarterly Taxable Wages (D/4)	193,972	193,972
F 30% of Net Revenue (30%*C)	250,200	F 30% of Net Revenue (30%*C)	550,200	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	878,000	G Deduction (Max of D,E,F)	878,000	G Taxable Quarterly Amount (E-F)	108,972	108,972
H Margin (C-G)	-	H Margin (C-G)	956,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	1,275	2,179
J Tax (H*I)	-	J Tax (H*I)	19,120	J Annual Tax (I*4)	5,100	8,718
K Credit for MBT Paid (assume current rate)	5,100	K Credit for MBT Paid (assume current rate)	5,100			
L Net Margin Tax Due (J-K)	-	L Net Margin Tax Due (J-K)	14,020			
M Total tax due, with MBT (K+L)	5,100	M Total tax due, with MBT (K+L)	19,120	J Total Tax Due	5,100	8,718
Effective Tax Rate (M/A)	**0.278%**	**Effective Tax Rate (M/A)**	**1.043%**	**Effective Tax Rate (J/A)**	**0.278%**	**0.475%**

Source of business data: Fair, Anderson & Langerman via Nevada Margin Tax Impact Analysis, RCG Economics, August 2014

Appendix B

Tax Scenarios Using Data from Nevada Businesses

3. Small Medical Practitioner

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	3,790,000	A Receipts as defined	3,790,000
B Tax Rate for Industry	0.208%	B Standard Deduction	450,000
C Range for Industry	3,578,360 to 4,115,114	C Taxable Amount (A-B)	3,340,000
D Business License Fee Due	7,982	D Tax Rate	0.25%
E Plus MBT current rate	15,023	E Tax Due (C*D)	8,350
F Total Tax Due (D+E)	23,005		
Effective Tax Rate (F/A)	**0.607%**	**Effective Tax Rate (E/A)**	**0.220%**

3. Small Medical Practitioner

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014		Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	3,790,000	A Receipts as defined	3,790,000	A Receipts as defined	3,790,000	3,790,000
B Deduction of first $1 million	1,000,000	B Deductions (pass through deducted in gross)	-	B Annual Payroll	1,624,000	1,624,000
C Net Revenue (A-B)	2,790,000	C Net Revenue (A-B)	3,790,000	C Health Cost (0%)*	-	-
D Cost of Goods Sold	-	D Cost of Goods Sold	-	D Taxable Wages (B-C)	1,624,000	1,624,000
E Employee Compensation	1,624,000	E Employee Compensation	1,624,000	E Quarterly Taxable Wages (D/4)	406,000	406,000
F 30% of Net Revenue (30%*C)	837,000	F 30% of Net Revenue (30%*C)	1,137,000	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	1,624,000	G Deduction (Max of D,E,F)	1,624,000	G Taxable Quarterly Amount (E-F)	321,000	321,000
H Margin (C-G)	1,166,000	H Margin (C-G)	2,166,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	3,756	6,420
J Tax (H*I)	9,328	J Tax (H*I)	43,320	J Annual Tax (I*4)	15,023	25,680
K Credit for MBT Paid (assume current rate)	15,023	K Credit for MBT Paid (assume current rate)	15,023			
L Net Margin Tax Due (J-K)	-	L Net Margin Tax Due (J-K)	28,297			
M Total tax due, with MBT (K+L)	15,023	M Total tax due, with MBT (K+L)	43,320	J Total Tax Due	15,023	25,680
Effective Tax Rate (M/A)	**0.396%**	**Effective Tax Rate (M/A)**	**1.143%**	**Effective Tax Rate (J/A)**	**0.396%**	**0.678%**

Source of business data: Fair, Anderson & Langerman via Nevada Margin Tax Impact Analysis, RCG Economics, August 2014

Appendix B

Tax Scenarios Using Data from Nevada Businesses

4. Automotive and Accessories Retail Sales

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	31,137,000	A Receipts as defined	31,137,000
B Tax Rate for Industry	0.121%	B Standard Deduction	450,000
C Range for Industry	29,117,382 to 33,484,989	C Taxable Amount (A-B)	30,687,000
D Business License Fee Due	37,847	D Tax Rate	0.25%
E Plus MBT current rate	40,298	E Tax Due (C*D)	76,718
F Total Tax Due (D+E)	78,145		
Effective Tax Rate (F/A)	**0.251%**	**Effective Tax Rate (E/A)**	**0.246%**

4. Automotive and Accessories Retail Sales

Margin Tax 2011, modified w $1M deduction		**Margin Tax 2014**		**Modified Business Tax**	**Current Rate**	**2% Rate**
A Receipts as defined	31,137,000	A Receipts as defined	31,137,000	A Receipts as defined	31,137,000	31,137,000
B Deduction of first $1 million	1,000,000	B Deductions (pass through deducted in gross)	-	B Annual Payroll	4,307,000	4,307,000
C Net Revenue (A-B)	30,137,000	C Net Revenue (A-B)	31,137,000	C Health Cost (12.14%)*	522,741	522,741
D Cost of Goods Sold	19,622,000	D Cost of Goods Sold	19,622,000	D Taxable Wages (B-C)	3,784,259	3,784,259
E Employee Compensation	4,307,000	E Employee Compensation	4,307,000	E Quarterly Taxable Wages (D/4)	946,065	946,065
F 30% of Net Revenue (30%*C)	9,041,100	F 30% of Net Revenue (30%*C)	9,341,100	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	19,622,000	G Deduction (Max of D,E,F)	19,622,000	G Taxable Quarterly Amount (E-F)	861,065	861,065
H Margin (C-G)	10,515,000	H Margin (C-G)	11,515,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	10,074	17,221
J Tax (H*I)	84,120	J Tax (H*I)	230,300	J Annual Tax (I*4)	40,298	68,885
K Credit for MBT Paid (assume current rate)	40,298	K Credit for MBT Paid (assume current rate)	40,298			
L Net Margin Tax Due (J-K)	43,822	L Net Margin Tax Due (J-K)	190,002			
M Total tax due, with MBT (K+L)	84,120	M Total tax due, with MBT (K+L)	230,300	J Total Tax Due	40,298	68,885
Effective Tax Rate (M/A)	**0.270%**	**Effective Tax Rate (M/A)**	**0.740%**	**Effective Tax Rate (J/A)**	**0.129%**	**0.221%**

Source of business data: Fair, Anderson & Langerman via Nevada Margin Tax Impact Analysis, RCG Economics, August 2014

Tax Scenarios Using Data from Nevada Businesses

5. Real Estate Broker

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	15,186,000	A Receipts as defined	15,186,000
B Tax Rate for Industry	0.272%	B Standard Deduction	450,000
C Range for Industry	14,476,482 to 16,647,954	C Taxable Amount (A-B)	14,736,000
D Business License Fee Due	42,379	D Tax Rate	0.25%
E Plus MBT current rate	53,298	E Tax Due (C*D)	36,840
F Total Tax Due (D+E)	95,677		
Effective Tax Rate (F/A)	**0.630%**	**Effective Tax Rate (E/A)**	**0.243%**

5. Real Estate Broker

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014		Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	15,186,000	A Receipts as defined	15,186,000	A Receipts as defined	15,186,000	15,186,000
B Deduction of first $1 million	1,000,000	B Deductions (pass through deducted in gross)	-	B Annual Payroll	5,526,000	5,526,000
C Net Revenue (A-B)	14,186,000	C Net Revenue (A-B)	15,186,000	C Health Cost (11.41%)*	630,627	630,627
D Cost of Goods Sold	-	D Cost of Goods Sold	-	D Taxable Wages (B-C)	4,895,373	4,895,373
E Employee Compensation	5,526,000	E Employee Compensation	5,526,000	E Quarterly Taxable Wages (D/4)	1,223,843	1,223,843
F 30% of Net Revenue (30%*C)	4,255,800	F 30% of Net Revenue (30%*C)	4,555,800	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	5,526,000	G Deduction (Max of D,E,F)	5,526,000	G Taxable Quarterly Amount (E-F)	1,138,843	1,138,843
H Margin (C-G)	8,660,000	H Margin (C-G)	9,660,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	13,324	22,777
J Tax (H*I)	69,280	J Tax (H*I)	193,200	J Annual Tax (I*4)	53,298	91,107
K Credit for MBT Paid (assume current rate)	53,298	K Credit for MBT Paid (assume current rate)	53,298			
L Net Margin Tax Due (J-K)	15,982	L Net Margin Tax Due (J-K)	139,902			
M Total tax due, with MBT (K+L)	69,280	M Total tax due, with MBT (K+L)	193,200	J Total Tax Due	53,298	91,107
Effective Tax Rate (M/A)	**0.456%**	**Effective Tax Rate (M/A)**	**1.272%**	**Effective Tax Rate (J/A)**	**0.351%**	**0.600%**

Source of business data: Fair, Anderson & Langerman via Nevada Margin Tax Impact Analysis, RCG Economics, August 2014

Tax Scenarios Using Data from Nevada Businesses

6. Telecommunications Business

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Receipts as defined	23,114,000	A Receipts as defined	23,114,000
B Tax Rate for Industry	0.329%	B Standard Deduction	450,000
C Range for Industry	22,016,922 to 25,319,461	C Taxable Amount (A-B)	22,664,000
D Business License Fee Due	77,860	D Tax Rate	0.25%
E Plus MBT current rate	37,474	E Tax Due (C*D)	56,660
F Total Tax Due (D+E)	115,334		
Effective Tax Rate (F/A)	**0.499%**	**Effective Tax Rate (E/A)**	**0.245%**

6. Telecommunications Business

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014	
A Receipts as defined	23,114,000	A Receipts as defined	23,114,000
B Deduction of first $1 million	1,000,000	B Deductions	-
C Net Revenue (A-B)	22,114,000	C Net Revenue (A-B)	23,114,000
D Cost of Goods Sold	5,739,577	D Cost of Goods Sold	5,739,577
E Employee Compensation	3,797,331	E Employee Compensation	3,797,331
F 30% of Net Revenue (30%*C)	6,634,200	F 30% of Net Revenue (30%*C)	6,934,200
G Deduction (Max of D,E,F)	6,634,200	G Deduction (Max of D,E,F)	6,934,200
H Margin (C-G)	15,479,800	H Margin (C-G)	16,179,800
I Tax Rate	0.80%	I Tax Rate	2.00%
J Tax (H*I)	123,838	J Tax (H*I)	323,596
K Credit for MBT Paid (assume current rate)	37,474	K Credit for MBT Paid (assume current rate)	37,474
L Net Margin Tax Due (J-K)	86,364	L Net Margin Tax Due (J-K)	286,122
M Total tax due, with MBT (K+L)	123,838	M Total tax due, with MBT (K+L)	323,596
Effective Tax Rate (M/A)	**0.536%**	**Effective Tax Rate (M/A)**	**1.400%**

Modified Business Tax	Current Rate	2% Rate
A Receipts as defined	23,114,000	23,114,000
B Annual Payroll	3,797,331	3,797,331
C Health Cost (6.7%)**	254,421	254,421
D Taxable Wages (B-C)	3,542,909	3,542,909
E Quarterly Taxable Wages (D/4)	885,727	885,727
F Quarterly Deduction	85,000	85,000
G Taxable Quarterly Amount (E-F)	800,727	800,727
H Tax Rate	1.17%	2.00%
I Quarterly Tax (G*H)	9,369	16,015
J Annual Tax (I*4)	37,474	64,058
J Total Tax Due	37,474	64,058
Effective Tax Rate (J/A)	**0.162%**	**0.277%**

Source: Average Telecommunications Business under Internal Revenue Service Statistics of Income: 201

Tax Scenarios Using Data from Nevada Businesses

7. Average Large Las Vegas Strip Casino

Business License Fee		**Gross Receipts Tax: 2003 Proposal**	
A Gross Receipts	654,772,409	A Gross Receipts	654,772,409
A1 Deduction-Gaming Rev	239,841,916	A1 Deduction-Gaming Rev	239,841,916
A2 Net Revenue (A-A1)	414,930,493	A2 Net Revenue (A-A1)	414,930,493
B Tax Rate for Industry	0.218%	B Standard Deduction	450,000
C Range for Industry	414,392,019 to 476,550,822	C Taxable Amount (A2-B)	414,480,493
D Business License Fee Due	970,493	D Tax Rate	0.25%
E Plus MBT current rate	1,353,754	E Tax Due (C*D)	1,036,201
F Total Tax Due (D+E)	2,324,247		
Effective Tax Rate (F/A)	**0.355%**	**Effective Tax Rate (E/A)**	**0.158%**

7. Average Large Las Vegas Strip Casino

Margin Tax 2011, modified w $1M deduction		**Margin Tax 2014**		**Modified Business Tax**	**Current Rate**	**2% Rate**
A Gross Receipts	654,772,409	A Gross Receipts	654,772,409	A Receipts as defined	654,772,409	654,772,409
B Deduction of first $1 million & gaming	240,841,916	B Deductions (gaming revenue)	239,841,916	B Annual Payroll	129,950,156	129,950,156
C Net Revenue (A-B)	413,930,493	C Net Revenue (A-B)	414,930,493	C Health Cost (10.7%)**	13,904,667	13,904,667
D Cost of Goods Sold	35,100,862	D Cost of Goods Sold	35,100,862	D Taxable Wages (B-C)	116,045,489	116,045,489
E Employee Compensation	93,061,702	E Employee Compensation	93,061,702	E Quarterly Taxable Wages (D/4)	29,011,372	29,011,372
F 30% of Net Revenue (30%*C)	124,179,148	F 30% of Net Revenue (30%*C)	124,479,148	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	124,179,148	G Deduction (Max of D,E,F)	124,479,148	G Taxable Quarterly Amount (E-F)	28,926,372	28,926,372
H Margin (C-G)	289,751,345	H Margin (C-G)	290,451,345	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	338,439	578,527
J Tax (H*I)	2,318,011	J Tax (H*I)	5,809,027	J Annual Tax (I*4)	1,353,754	2,314,110
K Credit for MBT Paid (assume current rate)	1,353,754	K Credit for MBT Paid (assume current rate)	1,353,754			
L Net Margin Tax Due (J-K)	964,257	L Net Margin Tax Due (J-K)	4,455,273			
M Total tax due, with MBT (K+L)	2,318,011	M Total tax due, with MBT (K+L)	5,809,027	J Total Tax Due	1,353,754	2,314,110
Effective Tax Rate (M/A)	**0.354%**	**Effective Tax Rate (M/A)**	**0.887%**	**Effective Tax Rate (J/A)**	**0.207%**	**0.353%**

Source: 2014 Gaming Abstract, Average for Large Las Vegas Strip Casinc

Appendix B

Tax Scenarios Using Data from Nevada Businesses

8. Restaurant with 15 Slots

Business License Fee	
A Gross Receipts	1,300,000
A1 Deduction-Gaming Rev	-
A2 Net Revenue (A-A1)	1,300,000
B Tax Rate for Industry	0.218%
C Range for Industry	1,169,768 to 1,345,233
D Business License Fee Due	2,740
E Plus MBT current rate	-
F Total Tax Due (D+E)	2,740
Effective Tax Rate (F/A)	**0.211%**

Gross Receipts Tax: 2003 Proposal	
A Gross Receipts	1,300,000
A1 Deduction-Gaming Rev	640,000
A2 Net Revenue (A-A1)	660,000
B Standard Deduction	450,000
C Taxable Amount (A2-B)	210,000
D Tax Rate	0.25%
E Tax Due (C*D)	525
Effective Tax Rate (E/A)	**0.040%**

8. Restaurant with 15 Slots

Margin Tax 2011, modified w $1M deduction	
A Gross Receipts	1,300,000
B Deduction of first $1 million	1,000,000
C Net Revenue (A-B)	300,000
D Cost of Goods Sold	880,000
E Employee Compensation	290,000
F 30% of Net Revenue (30%*C)	90,000
G Deduction (Max of D,E,F)	880,000
H Margin (C-G)	-
I Tax Rate	0.80%
J Tax (H*I)	-
K Credit for MBT Paid (assume current rate)	-
L Net Margin Tax Due (J-K)	-
M Total tax due, with MBT (K+L)	-
Effective Tax Rate (M/A)	**0.000%**

Margin Tax 2014	
A Gross Receipts	1,300,000
B Deductions (gaming revenue)	-
C Net Revenue (A-B)	1,300,000
D Cost of Goods Sold	880,000
E Employee Compensation	290,000
F 30% of Net Revenue (30%*C)	390,000
G Deduction (Max of D,E,F)	880,000
H Margin (C-G)	420,000
I Tax Rate	2.00%
J Tax (H*I)	8,400
K Credit for MBT Paid (assume current rate)	-
L Net Margin Tax Due (J-K)	8,400
M Total tax due, with MBT (K+L)	8,400
Effective Tax Rate (M/A)	**0.646%**

Modified Business Tax	**Current Rate**	**2% Rate**
A Receipts as defined	1,300,000	1,300,000
B Annual Payroll	290,000	290,000
C Health Cost (7.93%)	23,000	23,000
D Taxable Wages (B-C)	267,000	267,000
E Quarterly Taxable Wages (D/4)	66,750	66,750
F Quarterly Deduction	85,000	85,000
G Taxable Quarterly Amount (E-F)	-	-
H Tax Rate	1.17%	2.00%
I Quarterly Tax (G*H)	-	-
J Annual Tax (I*4)	-	-
J Total Tax Due	-	-
Effective Tax Rate (J/A)	**0.000%**	**0.000%**

Source: Business financial data provided to Guinn Center for Policy Prioritie:

Tax Scenarios Using Data from Nevada Businesses

9. Gold Mine

Business License Fee		Gross Receipts Tax: 2003 Proposal	
A Gross Receipts	100,000,000	A Gross receipts	100,000,000
A1 Deduction-Net Proceeds Rev	70,000,000	A1 Deduction-Net Proceeds Rev	70,000,000
A2 Net Revenue (A-A1)	30,000,000	A2 Net Revenue (A-A1)	30,000,000
B Tax Rate for Industry	0.056%	B Standard Deduction	450,000
C Range for Industry	29,117,382 to 33,484,989	C Taxable Amount (A2-B)	29,550,000
D Business License Fee Due	17,389	D Tax Rate	0.25%
E Plus MBT current rate	115,344	E Tax Due (C*D)	73,875
F Total Tax Due (D+E)	132,733		
Effective Tax Rate (F/A)	**0.133%**	**Effective Tax Rate (E/A)**	**0.074%**

9. Gold Mine

Margin Tax 2011, modified w $1M deduction		Margin Tax 2014		Modified Business Tax	Current Rate	2% Rate
A Gross Receipts	100,000,000	A Gross Receipts	100,000,000	A Receipts as defined	100,000,000	100,000,000
B Deduction of first $1 million	1,000,000	B Deductions	-	B Annual Payroll	12,069,231	12,069,231
C Net Revenue (A-B)	99,000,000	C Net Revenue (A-B)	100,000,000	C Health Cost (15.5%)**	1,870,731	1,870,731
D Cost of Goods Sold	unknown	D Cost of Goods Sold	unknown	D Taxable Wages (B-C)	10,198,500	10,198,500
E Employee Compensation	12,069,231	E Employee Compensation	12,069,231	E Quarterly Taxable Wages (D/4)	2,549,625	2,549,625
F 30% of Net Revenue (30%*C)	29,700,000	F 30% of Net Revenue (30%*C)	30,000,000	F Quarterly Deduction	85,000	85,000
G Deduction (Max of D,E,F)	29,700,000	G Deduction (Max of D,E,F)	30,000,000	G Taxable Quarterly Amount (E-F)	2,464,625	2,464,625
H Margin (C-G)	69,300,000	H Margin (C-G)	70,000,000	H Tax Rate	1.17%	2.00%
I Tax Rate	0.80%	I Tax Rate	2.00%	I Quarterly Tax (G*H)	28,836	49,293
J Tax (H*I)	554,400	J Tax (H*I)	1,400,000	J Annual Tax (I*4)	115,344	197,170
K Credit for MBT Paid (assume current rate)	115,344	K Credit for MBT Paid (assume current rate)	115,344			
L Net Margin Tax Due (J-K)	439,056	L Net Margin Tax Due (J-K)	1,284,656			
M Total tax due, with MBT (K+L)	554,400	M Total tax due, with MBT (K+L)	1,400,000	J Total Tax Due	115,344	197,170
Effective Tax Rate (M/A)	**0.554%**	**Effective Tax Rate (M/A)**	**1.400%**	**Effective Tax Rate (J/A)**	**0.115%**	**0.197%**

Source: Estimates for Gross receipts and deduction for revenue subject to net proceeds of minerals tax based on typical gold mine from 2013-2014 Net Proceeds of Minerals Repoi