April 2015 **POLICY BRIEF** guinncenter.org

Comparison of 2015 Nevada Tax Proposals

Executive Summary

Introduction

After years of inadequate investment in education and low educational outcomes, many stakeholders have reached consensus around the need to increase Nevada's investment in education to build a strong economic future for the State. Discussions taking place in the Legislature also recognize the need to raise revenues, and are focused on determining the best way to raise these revenues.

This policy brief provides a comparison of the tax plans being considered by the Legislature. Based on our analysis and interviews with tax policy experts in other states that have implemented gross receipts taxes, the Guinn Center concludes by offering a series of policy questions and recommendations for Legislators.

Comparison of Effective Tax Rates under Three Tax Proposals (SB 252, SB 378, and AB 464)[1]

Governor Examples	Revenue (US$)	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
A. Construction	2,000,000	0.216%	0.462%	0.339%	1.400%	0.129%
B. Financial Activities	5,500,000	0.213%	0.548%	0.024%	1.400%	0.084%
C. Health Services	27,000,000	0.381%	0.465%	0.257%	1.400%	0.172%
D. Retail Trade	17,000,000	0.161%	0.465%	0.066%	1.400%	0.034%
Business Examples						
1. Construction Subcontractor	1,476,000	0.380%	0.461%	0.701%	0.686%	0.291%
2. Commercial Insurance Broker	1,834,000	0.405%	0.461%	0.604%	1.043%	0.278%
3. Small Medical Practitioner	3,790,000	0.607%	0.463%	0.599%	1.143%	0.396%
4. Automotive and Accessories Retail Sales	31,137,000	0.251%	0.465%	0.207%	0.740%	0.129%
5. Real Estate Broker	15,186,000	0.630%	0.465%	0.550%	1.272%	0.351%
6. Telecommunications Business	23,114,000	0.499%	0.465%	0.245%	1.400%	0.162%
7. Average Large Las Vegas Strip Casino	654,772,409	0.355%	0.295%	0.309%	0.887%	0.207%
8. Restaurant with 15 Slots	1,300,000	0.211%	0.460%	0.146%	0.646%	0.000%
9. Gold Mine	100,000,000	0.133%	0.337%	0.186%	1.400%	0.115%

Recommendations

1. Adopt a gross receipts tax.

There is a compelling state interest to diversify Nevada's tax structure and grow revenue base. A gross receipts tax, as proposed by SB 252 and SB 378, would diversify Nevada's tax base, thus reducing Nevada's vulnerability to economic downturns, and would allow Nevada's revenue base to grow as the economy grows. Currently approximately 60 percent general fund revenues are derived from two sources: gaming taxes and sales and use taxes. The Business License Fee, which the 330,000 businesses registered in

[1] The Guinn Center acknowledges that pursuant to Joint Standing Rule No. 14.3.1 (and the deadline of April 11, 2015), there will be no further action allowed on SB 378. However, each proposal contains elements of good tax policy and we believe that comparing the different features of the three tax proposals can inform the debate.

Nevada are required to pay, is not structured in such a way that captures the growth of the business or the State's economy. And only 4 percent of the 330,000 registered businesses in Nevada pay the Modified Business Tax (MBT), a payroll tax.

2. Adopt a single/limited gross receipts tax rate.

Under SB 252, the revised Nevada Business License Fee structure has approximately two dozen rates. The different rates introduce greater complexity and uncertainty. Interviews with tax policy officials in other states that have a gross receipts tax (e.g. Kentucky, Ohio, and Washington) underscored the benefits of having a single or limited rates. Tax policy officials noted that multiple rates had increased the transaction costs of administering and collecting revenues. 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). Here we acknowledge that SB 378 has the benefit of proposing a single rate, albeit higher than SB 252 (since it has to recoup revenues lost with its simultaneous provision to eliminate the MBT, which improves ease of implementation and compliance). The following table contains examples of how states with gross receipts have adopted a single (limited) tax rate on a business's gross receipts.

Comparative Examples of Other States with Gross Receipts Taxes and Limited Rates

Kentucky	Limited Liability Entity Tax (LLET)	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.	The LLET is a tax on the Kentucky gross receipts or gross profits of corporations and limited liability tax pass-through entities. 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.
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 and the AMT. Businesses that have gross receipts less than $150,000 are not subject to CAT, but do pay the Alternative Minimum Tax (AMT). For the AMT, filers with annual taxable gross receipts of more than $150,000 are subject to the AMT. $150 for filers with $150K- $1M in gross receipts; $800 for filers with $1M-$2M in gross receipts; $2,100 for filers with $2-$M in gross receipts; $2,600 for filers with more than $4M in gross receipts.
Texas	Franchise Tax	Rates are 1.0 percent for most entities; 0.5 percent for wholesalers and retailers; 0.575 percent for entities with $10 million or less in total revenue.	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.

3. If SB 252 tax rates are adopted as proposed, establish an Interim Legislative Committee to improve collection of information on businesses operating in Nevada and review (and revise) preliminary rates as more accurate information is collected.

The Guinn Center has stated that while it believes SB 252 contains elements of good tax policy, we have concern with the rates as proposed. First, the roughly two dozen rates increase the transaction costs related to implementation and compliance. Interviews with tax policy analysts in other states revealed the challenges of a system with many rates. Second, as discussed in the following pages, the proposed rates do not correlate with Nevada's economy, the national profitability of the industry, and state and local labor costs. As such, the Guinn Center recommends imposing a single BLF tax rate or limited BLF tax rate(s). However, if adopted as proposed without amendment, the Legislature should establish an Interim

Legislative Committee to review the rates so as to ensure that rates accurately reflect and capture Nevada's economy. This review should take place after the first year. Legislators should include a provision that specifies the review of BLF rates every four years.

4. Allow companies to file consolidated returns.

One criticism of gross receipts taxes is that they may lead to pyramiding, the imposition of a tax on each stage of production. However, tax policy experts suggest that one way to reduce pyramiding is by allowing companies (especially those that are vertically integrated) to file consolidated returns. If a gross receipts tax is passed, the Legislature should consider allowing companies to file consolidated returns. Nevada tax authorities will have to explore consolidated returns would impact overall revenue projections.

5. Eliminate MBT health care premium deductions and reduce payroll deductions.

Regardless of whether Legislators adopt a gross receipts tax, the Guinn Center acknowledges that AB 464 contains elements of good tax policy. Specifically, the Guinn Center views favorably AB 464's provisions that seek to improve Nevada's overall tax structure by reducing and/or eliminating deductions. The Legislature should eliminate MBT health care premium deductions and reduce payroll deductions.

6. Eliminate the higher rate MBT for financial institutions and mining.

The Guinn Center supports AB 464's provision to eliminate industry-specific tax rates and the disparate treatment of financial institutions. Regardless of whether the MBT rate is modified (per AB 464), we recommend that all businesses should be subject to the same MBT rate as a matter of good tax policy that avoids the imposition of single industry taxes (or rates). Similarly, Legislators should eliminate the Branch Bank Excise Tax. We support eliminating the higher MBT rate for the mining industry, which remains in place under SB 252. Under AB 464, the mining industry would pay the same rate as other industries.

7. Implement a gross receipts tax with single/limited rates and revise the MBT to eliminate/reduce deductions and eliminate industry-specific rates.

Based on principles of good tax policy and recognizing the need to reform Nevada's tax system, the Guinn Center recommends that Legislators adopt the various elements of good tax policy contained in each of the tax proposals under consideration.

- In order to diversify Nevada's tax base, Legislators should implement a gross receipts tax, which would reduce the State's vulnerability to economic downturns and would grow with and capture Nevada's diversifying economy (SB 252 and SB 378).
- Adopt a single (or limited) gross receipts tax rate, which will reduce the transaction costs (SB 378).
- Given that Nevada does not collect information on gross receipts currently, Legislators should consider adopting both a gross receipts tax and AB 464 in order to meet revenue targets while diversifying the State's tax base.
- Upon adoption of a gross receipts tax, explore the possibility of reducing the MBT rate (as proposed under AB 464 at 1.56 percent) so as to meet desired revenues for 2015-2017 biennium. (Our preliminary analysis suggests if both SB 252 and AB 464 were adopted, the MBT rate could be lowered to 1.35-1.40).
- Establish an Interim Legislative Committee that would review SB 252 BLF rates and the combined impact of SB 252 and the MBT on industries. Policymakers should ensure that the share of tax revenues generated by SB 252 and the MBT (existing or AB 464) are not disproportionately borne by a handful of industries.

Comparison of 2015 Nevada Tax Proposals

Objective

This policy brief reviews the tax plans being considered by the Nevada State Legislature during the 78th Legislative Session. The policy brief compares and contrasts each proposal, and offers a series of policy questions and recommendations for the Legislators as they consider tax reform in Nevada.

Introduction

After years of inadequate investment in education and low educational outcomes for Nevada's students, many stakeholders have reached consensus around the need to increase Nevada's investment in education to build a strong economic future for the State. Discussions taking place in the Legislature also recognize the need to raise revenues, and are focused on determining the best way to raise these revenues.

This policy brief provides a comparison of the tax plans being considered by the Legislature. Based on our analysis and interviews with tax policy experts in other states that have implemented gross receipts taxes, the Guinn Center concludes by offering a series of policy questions and recommendations for Legislators.

Background and Motivation: A Tax Structure that Reflects Nevada's Changing Economy

In the last 10-15 years, Nevada has experienced significant transformations, driven by demographic growth and economic shifts. As political leaders gather to discuss tax policy, many have commented that our tax structure is outdated and is not suited to capture Nevada's changing economy. To illustrate, Nevada's population has grown 21 percent since 2005, while general fund revenues have only grown 11.8 percent. General fund revenues per capita have decreased from $1,167 in 2005 to $1,080 in 2014 (see Figure 1).

Nevada needs a tax structure and sources of revenue that are stable and can grow, thereby improving the State's ability to respond to the needs and challenges of a Nevada of the 21st century. By way of example, there are over 330,000 business entities registered in Nevada that pay a $200 Business License Fee. The Business License Fee is not structured currently in a way that captures the growth of those businesses or the increasing demands on the State to provide increasing amounts of safe, reliable, high-quality public resources.

In addition, policymakers are committed to ensuring that a new tax or source of revenue contains elements of good tax policy. A selection of sound tax principles are: (1) taxes should be stable and predictable; (2) taxes should be broad-based and rates should be low; and (3) taxes should be fair and simple; taxes should protect economic competitiveness.[2]

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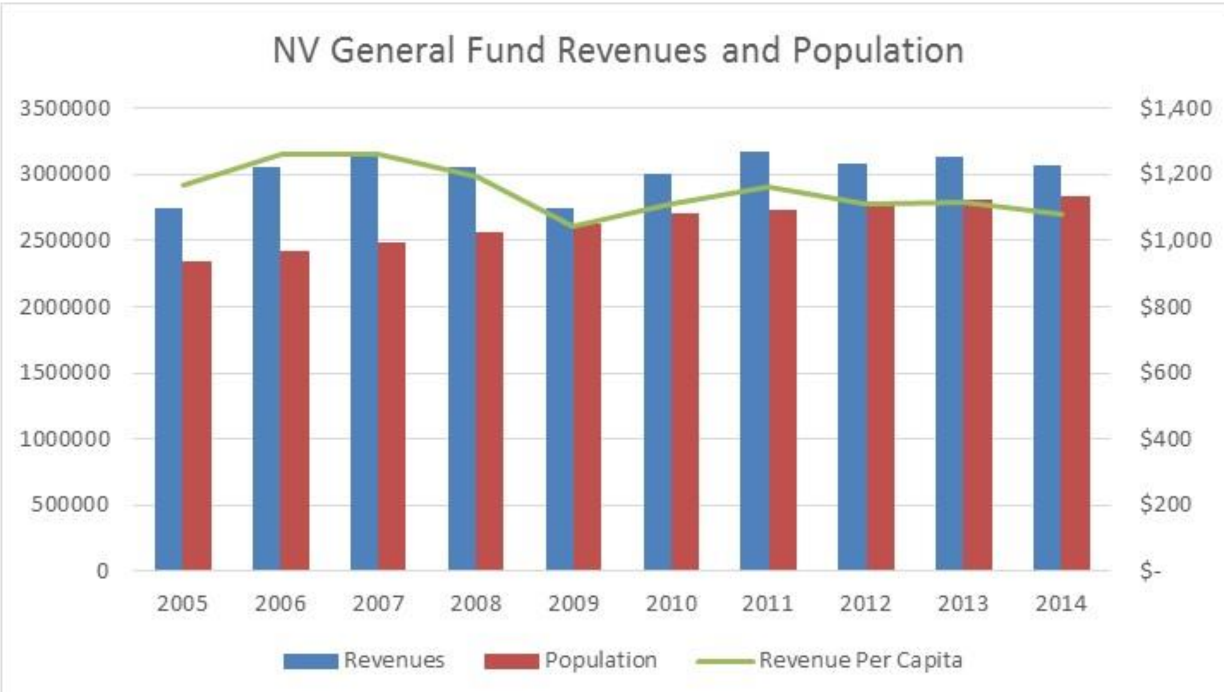
[2] Minnesota Center for Fiscal Excellence. Taxing Decisions Matter: A Guide to Good Tax Policy. https://www.fiscalexcellence.org/our-studies/tax-policy-primer.pdf; The Tax Foundation. Principles of Sound Tax Policy. http://taxfoundation.org/principles-sound-tax-policy

The Business Landscape in Nevada

- There are over 330,000 business entities registered in Nevada that pay the Business License Fee.[3]
- Of these, more than 200,000 are non-Nevada employee or foreign companies.[4]
- There are approximately 58,340 for-profit businesses in Nevada.[5]
- Currently, 12,520 businesses pay the non-financial Modified Business Tax and only 1,562 pay the financial MBT, which represents a mere 4.3 percent of all registered business entities in the state, and 24.0 percent of all businesses with payroll.[6]

Figure 1. General Fund Revenues, Population Growth, and General Fund Revenues per Capita



Note: Revenues in thousands.

In the pages that follow, we compare the three tax proposals: SB 252 Business License Fee, SB 378 (Supplemental Revenue Fee), and the Hybrid Tax Proposal (AB 464).

[3] Office of the Governor, State of Nevada. Business License Fee Facts. January 2015.
[4] Nevada Registered Agent Association. 2015. Proposed Nevada Business License Fee Increase and Gross Receipts Margin Tax.
[5] 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
[6] Ibid. The Tax Foundation study suggested that Legislators may want to consider removing exemptions for businesses with less than $85,000 in quarterly wages and increase the rate to 2 percent across all businesses. MBT data from the Nevada Department of Taxation 2013-2014 Tax Expenditure Report. (November 2014), page 77. http://tax.nv.gov/uploadedFiles/taxnvgov/Content/TaxLibrary/Tax_Expenditure_Report_2013-2014.pdf

Business License Fee (SB 252)[7]

Core Features

- The Business License Fee is a tax based on a business's gross receipts.
- The Business License Fee proposal is intended to be as broad-based and would continue to apply to the 333,000 business entities that are registered in Nevada.
- The revised structure Business License Fee, based on a business's gross receipts, is intended to more effectively allow for and capture growth of the business and growth of Nevada's economy, thereby providing greater stability to the State.
- The proposed tax rates for each industry are shown in Table 1 (page 7). 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.
- The current Business License Fee is $200 per year. Under SB 252, all businesses without employees would pay the flat $400 business license fee. This would encompass many of the foreign corporations, which do not have any employees in Nevada. Foreign corporations with employees, however, would be required to pay the designated tax amount for the industry and business size.
- Pass through entities (including S-corporations, sole proprietorships, and Limited Liability Companies) would be subject to the Business License Fee, but pass through revenue would be exempt.
- Table 2 (page 8) 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.
- Under SB 252, small business owners with gross receipts under $125,000 would pay a Business License Fee of $400, an increase from the current fee of $200.
    - As under current law, small businesses that gross less than 66 2/3 of the average annual wage ($28,100) would not have to pay the Business License Fee.
- 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.[8] 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. The Office of the Governor and the Nevada Department of Taxation calculated the effective tax rate realized by each industry under the Texas Franchise Tax. Tax policy consultants then made adjustments to the rates for retailers, wholesalers, restaurant operators, and accommodations.[9] 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.
- To simplify administration, the State would use an established tiered range of revenue to calculate the tax. 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

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[7] Proposed March 11, 2015. Sponsor: Nevada Department of Administration.
[8] See Office of the Governor. January 2015. *Business License Fee Facts*.
[9] See Nevada Department of Administration and the Office of the Governor. January 2015. Business License Fee Facts.
http://gov.nv.gov/uploadedFiles/govnvgov/Content/News_and_Media/Press/2015_Images_and_Files/BusinessLicenseFeeFacts.pdf

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. 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.

Table 1. Business License Fee, Profitability by Industry, and Contribution to Nevada GDP[10]

A	B	C	D	E	F
Industry	**Business License Fee Rate**	**National Industry Profitability Rate[11]**	**Industry Contribution to NV GDP** (2012)	**Industry Contribution to TX GDP** (2012)	**MBT Tax Share** (2013)
Rail Transportation	0.36%	0.62%	0.17%	0.28%	5.2%
Telecommunications	0.33%	0.43%	1.10%	2.63%	1.6%
Educational Services	0.31%	7.00%	5.97%	0.72%	0.7%
Waste Management Services	0.29%	4.33%	0.29%	0.30%	9.8%
Publishing Software Data Processing	0.28% 0.28% 0.28%	12.8% 4.19% 0.80%	0.41% 0.54% 0.21%	1.39% 1.39% 1.39%	1.6% 1.6% 1.6%
Real Estate	0.27%	7.46%	13.7%	10.0%	1.9%
Arts, Entertainment & Recreation	0.26%	3.14%	2.48%	0.71%	2.0%
Truck Transportation	0.22%	1.65%	0.51%	1.04%	5.2%
Accommodation	0.22%	-1.11%	10.7%	0.62%	16.9%
Food Services (including restaurants)	0.21%	4.50%	3.27%	2.53%	4.8%
Health Services	0.21%	5.10%	5.57%	7.38%	10.4%
Professional Services	0.20%	4.19%	9.80%	8.06%	7.1%
Administrative and Support Services	0.17%	3.44%	2.77%	3.26%	9.8%
Other services	0.16%	4.02%	1.84%	2.80%	3.1%
Management of Companies	0.15%	62.0%	2.43%	1.09%	9.8%
Utilities	0.15%	-4.98%	1.5%	2.43%	0.8%
Other Transportation	0.14%	3.41%	1.64%	1.51%	5.2%
Warehousing & Storage	0.13%	2.91%	0.45%	0.31%	5.2%
Retail Trade	0.12%	2.71%	6.76%	6.88%	8.1%
Financial Activities	0.12%	16.8%	4.97%	5.97%	9.8%
Wholesale Trade	0.11%	2.38%	3.90%	7.46%	4.6%
Construction	0.10%	1.93%	4.23%	5.31%	5.9%
Manufacturing	0.10%	5.56%	4.33%	16.4%	4.4%
Agriculture	0.07%	2.69%	0.28%	0.93%	0.1%
Air Transportation	0.06%	0.62%	1.41%	0.74%	5.2%
Mining	0.06%	6.70%	7.85%	9.21%	2.7%
Unclassified	0.14%				
AVERAGE	**0.16%**				
Non-Employer Companies	$400 fee				
Foreign Filers	$400 fee				

Revenue Exemptions

- 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 (Gross Receipts Tax 2003, and Margin Tax 2011, 2014). Some of these exemptions include: revenue subject to the gaming percentage fee;

[10] Internal Revenue Service. http://www.irs.gov/uac/SOI-Tax-Stats-Returns-of-Active-Corporations-Table-27
[11] Profitability rate is based on IRS data for industry calculated as net income as a share of total receipts.

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. 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.

Table 2. Comparison of Effective Tax Rates of Three Proposals (SB 252, SB 378, AB 464)[12]

Governor Examples	Revenue	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
A. Construction	2,000,000	0.216%	0.462%	0.339%	1.400%	0.129%
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SB 252 Business License Fee: Strengths

National tax policy experts have identified key principles of good tax policy.[13] Against these principles, the Guinn Center posits that SB 252 contains several elements of good tax policy.

The Business License Fee is a gross receipts tax, which is considered one of the more stable

Tax policy analysts observe that "Nevada's tax 'portfolio' has consistently suffered from an inadequate response to both the business cycle and long run economic growth."[14] National and local tax policy experts

[12] 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.

[13] Minnesota Center for Fiscal Excellence. Taxing Decisions Matter: A Guide to Good Tax Policy. https://www.fiscalexcellence.org/our-studies/tax-policy-primer.pdf; The Tax Foundation. Principles of Sound Tax Policy. http://taxfoundation.org/principles-sound-tax-policy

[14] Alan Schlottmann and John Restrepo. March 2015. Nevada's General Fund: Growth & Volatility. UNLV and RCG Economics.

believe that a revenue-generating instrument based on gross receipts is a (more) stable and predictable structure than a number of other taxes. While gross receipts fluctuate with the economy, taxes based on gross receipts are more stable than those based on profit, which can vary substantially from year to year. Because SB 252 would be based on gross receipts, it introduces an element of stability and predictability into Nevada's current tax structure.

Business License Fee rates are low

The proposed tax rates for each industry are shown in Table 1 (page 7). The average rate is 0.163 percent. The effective tax rates under the proposed Business License Fee are substantially lower than those under the 2014 Education Initiative (margin tax) proposal.

The Business License Fee acknowledges the need to protect economic competitiveness

The SB 252 Business License Fee rate for each industry is derived based on the effective industry tax rates in Texas following the implementation of the Texas Franchise Tax. Adjustments were then made to the rates for retailers, wholesalers, restaurant operators, and accommodations. SB 252 architects posited that 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 seeks to increase the revenues paid by businesses and allow for future growth

The Business License Fee proposal is intended to be broad-based and will impact all 330,000 businesses registered in Nevada. Currently, the Business License Fee is a flat rate (of $200) that does not take into account the profitability of a business entity and, as such, does not allow growth. Stable taxes are those which allow for growth. The revised Business License Fee (SB 252) proposes a new structure, based on a business's gross receipts, that captures a firm's growth.

SB 252 Business License Fee: Areas of Concern

Lack of transparency

Despite numerous requests by elected officials and policy analysts, 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 proposed 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. To emphasize this point, when Texas implemented the Texas Franchise Tax, the original revenue estimate was $5.9 billion; however, the actual revenue was $4.5 billion, which amounted to a 24 percent difference in estimated versus realized revenues.[15]

[15] Guinn Center. 2014. Fact Sheet on The Education Initiative (Margin Tax), page 1. http://guinncenter.org/wp-content/uploads/2014/01/GCPP-Margin-Tax-Fact-Sheet-FINAL.pdf

Proposed rates are not based on Nevada's economy

The logic for basing the Business License Fee rates on the effective tax rates associated with the Texas Franchise Tax is not immediately apparent. First, the proposed SB 252 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 (page 7) presents the proposed business license fee rates for 27 industry categories, the national industry profitability rate (based on Internal Revenue Service business returns), the industry contribution to Nevada's GDP, and the industry's contribution to Texas' GDP (for comparison). 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 national profitability rate of the industry is only 0.62 percent, and its contribution to the Nevada GDP is only 0.17 percent. It is also unclear why Nevada should base its tax rates on the experience of Texas given that the Texas and Nevada economies are significantly different.

Additionally, by taking the effective tax rates resulting from Texas, the proposed rates fail to take into account the fact that labor costs vary significantly across the two states. There are at least two reasons why labor costs may vary. First, the minimum wage observed in Nevada is $7.25 per hour if the employer offers health benefits, and $8.25 per hour if the employer does not offer health benefits. In contrast, the minimum wage in Texas is $7.25 (the Federal minimum wage). Second, the rate of unionization in Nevada is roughly three times higher than the rate in Texas. In 2014, union members accounted for 14.4 percent of public and private wage and salary workers in Nevada, compared to only 4.8 percent in Texas.[16] And according to the U.S. Bureau of Labor Statistics, median weekly earnings of union workers are 26 percent higher than non-union workers.[17]

These factors, along with others, may account for higher labor costs in Nevada. To illustrate, Table 3 shows that for most of the occupational categories, the hourly wage in Nevada was significantly higher than the hourly wage in Texas. The hourly wage for construction managers in Nevada, for example, was $40.4, compared to Texas' wage of $32.3 (reflecting a 25 percent difference).

Second, there are inconsistencies in rates that have not been publicly explained. 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).

Given the differences in labor costs and the lack of correlation between the proposed tax rates and the profitability of the industry and/or its contribution to the Nevada GDP, the Guinn Center has some concerns about the proposed BLF rates, while acknowledging that the lack of detailed data and information on businesses currently operating in Nevada makes it difficult to devise rate that accurately reflect Nevada's economy. However, there are ways to address these challenges.

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[16] U.S. Bureau of Labor Statistics. 2015. http://www.bls.gov/regions/west/news-release/UnionMembership_Nevada.htm

[17] U.S. Bureau of Labor Statistics. 2013. http://www.bls.gov/news.release/union2.t02.htm

Specifically, we recommend imposing a single or limited rate (or tiered structure), similar to the structures adopted by Kentucky, Ohio and Texas (and the Nevada 2003 Gross Receipts tax proposal). 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. Interviews with tax officials in Kentucky, Ohio, and Washington underscored the improved ease of administration and compliance with single (or limited) rates and/or tiered structures.

Table 3. Comparison of Labor Costs in Nevada and Texas

State Occupational Employment and Wage Estimates	Nevada Hourly Wage	Texas Hourly Wage	Difference in Wages (Percent)
Management Occupations	46.1	55.0	-16.2%
Construction Managers	40.4	32.3	25.1%
Gaming Managers	45.8	31.2	46.7%
Lodging Managers	41.6	25.0	66.5%
Medical and Health Services Managers	50.7	47.1	7.8%
Computer and Mathematical Occupations	35.8	39.2	-8.8%
Architecture and Engineering Occupations	36.2	43.1	-16.1%
Life, Physical, and Social Science Occupations	31.9	34.6	-7.6%
Community and Social Service Occupations	23.7	22.0	7.7%
Legal Occupations	45.6	48.4	-5.9%
Education, Training, and Library Occupations	22.9	23.2	-1.0%
Arts, Design, Entertainment, Sports, and Media Occupations	25.3	23.7	6.6%
Healthcare Practitioners and Technical Occupations	40.3	35.3	14.0%
Healthcare Support Occupations	16.1	13.3	21.2%
Protective Service Occupations	19.3	19.8	-2.3%
Food Preparation and Serving Related Occupations	12.1	10.0	20.3%
Building and Grounds Cleaning and Maintenance Occupations	14.1	10.9	29.9%
Personal Care and Service Occupations	12.4	10.2	22.0%
Sales and Related Occupations	16.1	19.2	-16.2%
Office and Administrative Support Occupations	16.6	16.5	0.4%
Farming, Fishing, and Forestry Occupations	16.5	12.4	33.6%
Construction and Extraction Occupations	24.0	19.4	23.7%
Installation, Maintenance, and Repair Occupations	23.8	20.6	15.5%
Production Occupations	16.8	17.2	-2.4%
Transportation and Material Moving Occupations	16.9	16.3	3.5%

Source: Date: Mean Hourly Wage, U.S. Bureau of Labor Statistics; Yellow highlighting indicates occupations where Nevada labor rates are higher than those in Texas.

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.[18] This creates a layer of taxation at each stage of production and can lead to higher costs for consumers. Gross

[18] The Tax Foundation. 2006. Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes. http://taxfoundation.org/article/tax-pyramiding-economic-consequences-gross-receipts-taxes

receipts taxes are often criticized for leading to tax pyramiding because they allow few or no deductions and are not based on profit.

The Business License Fee is based on gross receipts. According to SB 252 architects, 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 Texas industry tax rates following the implementation of the Texas Franchise Tax. SB 252 architects assert that the Business License Fee limits tax pyramiding. While deductions are implicitly included in the tax rates, however, the Business License Fee is still not a tax based on profitability of the business or industry. Therefore, some potential for tax pyramiding remains. That said, Nevada tax policy expert Guy Hobbs recently noted that pyramiding is a challenge associated with many taxes (including, for example, property taxes).[19,20] Taxes vary on the degree of pyramiding that exists, but there are provisions that can limit pyramiding. Allowing companies (particularly those that are vertically integrated) to file consolidated returns is one way of mitigating the pyramiding challenge.

Supplemental Revenue Fee (SB 378)[21]

Core Features

- SB 378 would impose a quarterly supplemental revenue fee on each business entity in this State with taxable gross receipts exceeding $25,000 in a calendar quarter.
    - There is a deduction for the first $100,000 of annual gross receipts.
- A business entity whose taxable gross receipts exceed $25,000 quarterly must pay a $50 fee plus 0.465 percent of the portion of its taxable gross receipts for that calendar quarter that exceed $25,000.
    - The tax rate of 0.465 is the same for all industries.
    - SB 378 would maintain the current Business License Fee of $200.
- Businesses that are incorporated in Nevada but do not conduct trade in the state (e.g. foreign businesses) would pay a Business License Fee of $400.[22]
- Modified Business Tax
    - SB 378 would repeal the modified business tax for all businesses except financial institutions and mining companies. Both mining companies and financial institutions would have to pay a MBT rate of 2.0 percent.
    - SB 378 removes a provision that allows mining companies to deduct the costs of health care premiums when calculating their taxable income.

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[19] Ralston Live, April 17, 2015. Interview with Guy Hobbs and John Restrepo. http://watch.knpb.org/program/ralston-live/

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

[21] Presented March 17 2015. Sponsors include: Senator Patrician Spearman, Senator Mo Denis, and Senator David Parks. The Guinn Center acknowledges that pursuant to Joint Standing Rule No. 14.3.1 (and the deadline of April 11, 2015), there will be no further action allowed on this bill. However, we believe that comparing the different features of the three tax proposals presented in the 78th Legislature Session can inform the debate.

[22] The Nevada Registered Agent Association commissioned a study in which they reported that there are approximately 200,000+ No-Nevada employee (foreign) enterprises. This suggests that the upper bound of potential revenue from this features could be as much as $80 million (200,000*$400) (see https://www.leg.state.nv.us/App/NELIS/REL/78th2015/ExhibitDocument/OpenExhibitDocument/11594/NRAA-Paper-Final_031715.PDF.pdf).

    - As illustrated in Table 2 (page 8), financial activities have the highest effective tax rate under SB 378 because these businesses would pay the Supplemental Revenue Fee and the Modified Business Tax.
- Under SB 378, large gaming and mining businesses would have lower effective tax rates than many other businesses presented in Table 2 because revenue subject to industry specific taxes would be exempt. Mining would also pay a 2 percent modified business tax.
- SB 378 removes a provision that allows mining companies to deduct the costs of health care premiums when calculating their taxable income.
- There is variability in whether the effective tax rate on gross receipts under SB 378 is higher or lower than under SB 252 (see Table 2, page 8).
- The effective tax rates under SB 378 are lower than under the 2014 Margin Tax proposal.
- Small businesses have a slightly lower effective tax rate than larger businesses under SB 378 due to the $25,000 quarterly exemption.
- As illustrated in Table 2 (page 8), financial activities have the highest effective tax rate under SB 378 because these businesses would pay the Supplemental Revenue Fee and the Modified Business Tax.

Revenue Exemptions
- The items excluded from the definition of revenue are the same under both the Supplemental Revenue Fee and the proposed Business License Fee (SB 252, Section 20 and SB 378, Section 20).
- There are a few differences in the definition of pass through revenue (SB 252, Section 11 and SB 378, Section 11).
- There are differences in the exemption of non-profit organizations. SB 378 exempts only 501(c)(3) corporations while SB 252 exempts all 501(c) corporations (SB 252, Section 3 and SB 378, Section 5).

SB 378 Supplemental Revenue Fee: Strengths

The Supplemental Revenue Fee is a gross receipts tax, which is considered more stable
As with SB 252, SB 378 is a tax based on a business's gross receipts, which introduces an element of stability into Nevada's current tax structure.

The Supplemental Revenue Fee is broad-based
The Supplemental Revenue Fee would impact all businesses who register in Nevada. Both SB 252 and SB 378 require businesses to pay the Business License Fee, as they do under current law. Similar to SB 252, SB 378 proposes a new structure, based on a business's gross receipts, that captures a firm's growth. Foreign companies would pay a Business License Fee of $400. SB 378 diversifies the State's tax base. Briefly, we note that the Supplemental Revenue Fee is not as broad-based as the Governor's Business License Fee proposal because it exempts small businesses with less than $25,000 in gross receipts per quarter.

The Supplemental Revenue Fee is easier to administer
The Supplemental Revenue Fee includes a single tax rate, which is easier for businesses and the State to administer than the two dozen tax rates proposed by SB 252. Ohio, which has a gross receipts tax, has a single rate of 0.260).

SB 378 Supplemental Revenue Fee: Areas of Concern

The Supplemental Revenue Fee bill retains industry-specific taxes
Under SB 378, the Modified Business Tax would be eliminated for most businesses, but would be imposed at a rate of 2 percent for mining and financial activities, which creates equity concerns given that good tax policy discourages the use of industry-specific taxes.

Rates are higher than under SB 252 (Business License Fee)
The SB 378 rate of 0.465 percent is considerably higher than the SB 252 Business License Fee tax rate, which varies from 0.14 to 0.36 percent. Admittedly, the SB 378 tax rate is higher because it eliminates the MBT (except for financial institutions and mining companies) and thus, must replace the revenues lost due to the elimination of the MBT on non-financial businesses.

The effective tax rates for certain industries are higher under SB 378 than SB 252 for almost all industries presented in Table 2 (page 8), with the exception of small medical practitioners, real estate brokers, and large gaming/casino industries. Because SB 378 eliminates the MBT, industries that are more human capital intensive could have a lower effective tax rate under SB 378 than SB 252.

Potential revenue shortfalls
The Modified Business Tax (MBT and MBT-Financial Institutions) accounts for approximately 12.2 percent of Nevada's General Fund Revenue,[23] and 4.1 percent of all state and local revenue.[24] SB 378 proposes elimination of the MBT, except on financial institutions and mining. However, given the lack of information on gross receipts currently, a proposal to eliminate the MBT immediately raises concerns about the State's ability to meet its revenue targets.

Hybrid Tax Proposal (AB 464)[25]

Core Features

- AB 464 would increase the MBT tax rate from the current rate of 1.17 percent to 1.56 percent.
- Under AB 464, the MBT health care premium exemption would be eliminated and the quarterly payroll deduction would be reduced from $85,000 to $50,000.
    - By eliminating the health care premium deduction, AB 464 borrows both from SB 378, which proposes to eliminate the deduction for mining companies when calculating their taxable income, as well as Governor Sandoval's proposal to make permanent the 'sunset taxes' which would end the ability of mining companies to eliminate health care premiums when calculating their net proceeds of minerals taxes.

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[23] Legislative Counsel Bureau. April 2014. Revenue and Budget. http://www.leg.state.nv.us/Division/Research/Publications/PandPReport/20-RB.pdf
[24] Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC.
[25] Presented by Assemblymen Derek Armstrong and Paul Anderson, March 23, 2015, Assembly Committee on Taxation.

- Due to these changes, effective tax rates would be higher for most businesses under AB 464 than the current MBT.
- AB 464 would raise the business license fee from its current level of $200 to $500 a year for corporations and $300 for other businesses.
- Foreign companies would have to pay $500 a year.
- AB 464 is broad-based and would impact all businesses that register in Nevada, who are required to pay the Business License Fee.
- Financial activities would have a lower effective tax rate than under the current MBT because the rate would decrease from 2 percent to 1.56 percent. AB 464 would also eliminate the Bank Branch Excise Tax, which was implemented in 2004.
- Pass through entities (including S-corporations, sole proprietorships, and Limited Liability Companies) would be subject to the Business License Fee, as they are currently.
- Small businesses that gross less than 66 2/3 of annual wage ($28,100) would not have to pay the Business License Fee.
- There is variability in whether the effective tax rate on gross receipts under AB 464 is higher or lower than under SB 252 or SB 378. Of the industry examples presented in Table 2 (page 8), financial activities, health services, retail trade, automotive sales, telecommunications, and restaurants with slots would all have a lower effective tax rate under AB 464 than under SB 252 and SB 378.
- The effective tax rate for large gaming casinos is lower under AB 464 than SB 252 (Table 2, page 8).
- The effective tax rates under AB 464 are lower than under the 2014 Margin Tax proposal.

AB 464: Strengths

Rates are low

Under AB 464, the MBT rates for non-financial institutions would increase from 1.17 to 1.56 percent. For financial institutions, the MBT rate would fall from 2.0 percent to 1.56 percent. Despite the proposed MBT rate increase, effective tax rates under AB 464 are lower than the effective tax rates under SB 252 and SB 378 (see Table 2, page 8). Moreover, some research suggests that a higher tax rate of 1.56 would not discourage businesses from hiring additional workers and increasing their payroll.[26]

AB 464 expands the revenue base

Currently, only 3.8 percent (12,520) of businesses registered in Nevada pay the non-financial MBT. Under AB 464, the quarterly payroll deduction would be reduced from $85,000 to $50,000. As a result, an additional 5,738 businesses would pay the non-financial MBT, for a total of 18,258 businesses (5.5 percent). Other businesses would pay the Business License Fee of $300 or $500. Similarly to SB 252, all businesses would be affected. As noted by the Tax Foundation: "The exemption level of $85,000 exempts many firms, carving away at the base and causing the rate on all other firms to be higher to make up the loss. Instead, the MBT could be a broad-based business payroll tax that all firms pay. This would allow the rate to be reduced, making the tax less distortionary overall. Or, if revenue enhancement is desirable, this base expansion could bring in additional tax collections when coupled with the higher rate."[27]

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[26] Per Guinn Center conversations with Dr. Alan Schlottmann, UNLV. April 2015.
[27] Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC., page 55.

AB 464 begins the process of broader tax reform

Over the years, the Nevada State Legislature has responded to state budget shortfalls and industry demands by revising various components of the MBT.[28] Additionally, over time, other industries were given various deductions. For example, the mining industry was allowed to reduce the cost of health care premiums when calculating their net proceeds of minerals taxes. AB 464 attempts to initiate the process of much needed tax reform by addressing some of the carve-outs and deductions. Specifically, AB 464 redresses previous modifications to the MBT by eliminating the health care premium deduction and reducing the quarterly payroll deduction from $85,000 to $50,000. In short, AB 464 reduces the 'patchwork' nature of Nevada's current tax structure.

AB 464 offers ease of compliance

AB 464 would simply expand the existing system used for collecting the MBT. Unlike the Business License Fee SB 252, AB 464 would not require significant fiscal resources to implement the revised tax structure.

AB 464: Areas of concern

AB 464 does not diversify Nevada's tax base

The primary concern with AB 464 is that it does not diversify Nevada's tax base. Quite simply, AB 464 increases revenue by raising the existing MBT (or payroll tax) rate for non-financial businesses. It does not provide a new source of revenue growth for Nevada. In short, while it expands the number of businesses that pay the MBT, it does not expand the sources of revenue.

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[28] Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC. "The MBT base has become smaller and smaller over time, forcing lawmakers to turn to rate increases to make up for lost revenue. When originally enacted, the general business rate was 0.70 percent with no exemption other than a deduction for employer-provided health insurance. In 2005, that rate dropped to 0.63 percent. In 2007, the MBT on general business adopted a graduated structure, with a tax of 0.5 percent on quarterly gross wages up to $62,500 and 1.17 percent above that. In 2011 the tax was again modified to eliminate the graduated structure, resulting in one rate of 1.17 percent and a quarterly exemption level of $62,500 in wages."

Small Businesses

Central to the debate is the potential impact of the various tax proposals on small businesses. This section analyzes the impact of the three tax proposals on small businesses, defined as those with gross receipts between $25,000 and $1,000,000 annually. Our analysis (presented in Table 4 for illustrative purposes) assumes that the small business is in professional business services and that payroll expenses account for 38 percent of gross receipts.[29] [Note: When payroll expenses were assumed to be 30 percent of gross receipts, AB 464 had the lowest effective tax rate for businesses grossing between $300,000 and $1.0 million. This underscores the importance of using Table 4 as an advisory tool. The actual impact on a small business will depend on payroll costs, as well as other factors.]

- SB 252, SB 378, and AB 464 would apply to all businesses that have gross revenues that exceed 66 2/3 of the average annual wage (amounting to $28,100).
- Because of the $100,000 annual gross receipts deduction under SB 378, small businesses that gross $100,000 or less would have a lower tax rate under SB 378 than under SB 252 or AB 464.
- Because the Supplemental Revenue Fee rate is much higher than the SB 252 rates, the effective tax rate of SB 378 is higher than under SB 252 for those businesses that gross between $100,000 and $1 million.
- For small businesses that gross $100,000 or less, the effective tax rate is higher under SB 252 than under SB 378 and AB 464.

Table 4. Comparison of Effective Tax Rates for Small Businesses

No.	Revenue	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
1	25,000	0.000%	0.000%	0.000%	0.000%	0.000%
2	50,000	0.800%	0.400%	0.600%	0.000%	0.000%
3	100,000	0.400%	0.200%	0.300%	0.000%	0.000%
4	125,000	0.320%	0.413%	0.240%	0.000%	0.000%
5	150,000	0.267%	0.422%	0.330%	0.000%	0.000%
6	200,000	0.202%	0.433%	0.250%	0.000%	0.000%
7	250,000	0.185%	0.439%	0.200%	0.000%	0.000%
8	300,000	0.204%	0.443%	0.167%	0.000%	0.000%
9	400,000	0.203%	0.449%	0.125%	0.000%	0.000%
10	500,000	0.186%	0.452%	0.100%	0.000%	0.000%
11	600,000	0.206%	0.454%	0.156%	0.000%	0.000%
12	700,000	0.203%	0.456%	0.219%	0.000%	0.000%
13	800,000	0.204%	0.457%	0.265%	0.000%	0.000%
14	900,000	0.208%	0.458%	0.302%	0.000%	0.000%
15	1,000,000	0.203%	0.459%	0.331%	1.240%	0.016%

[29] We base percentage of payroll expenses on professional services example found in 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

Table 5 below presents a brief snapshot of the comparative advantages and disadvantages of the three tax proposals under consideration by the Nevada State Legislature.

Table 5. Comparative Strengths and Weaknesses of Tax Proposals

Criteria	SB 252	SB 378	AB 464
Diversifies Nevada's tax revenue base	✓ Based on gross receipts	✓ Based on gross receipts	X Based on MBT
Tax is stable	✓ Gross receipts viewed as most stable	✓ Gross receipts viewed as most stable	✓ Fairly stable
Expands number of taxpayers (beyond those that currently pay the Business License Fee) and allows for growth	✓ All businesses that gross more than $125,000 would pay tax based on gross receipts	✓ Businesses with more than $100,000 in gross receipts would pay tax	✓ Only businesses with payroll would pay tax; Would add approx. 5,500 new businesses
Increases fees on foreign companies	✓ Would pay $400	✓ Would pay $400	✓ Would pay $300-$500
Rates are low	✓ Average rate of 0.16 percent	X Rate of 0.465; but higher to recoup revenues lost by eliminating MBT for most	✓ Higher MBT rate, but lower than 2.0 percent
Status of MBT	✓ Leaves MBT in place, including MBT tax on mining	X Eliminates MBT for all industries except mining companies and financial institutions	✓ Raises rates, removes disparate treatment of industries, removes/lowers deductions
Tax is not industry- or sector-specific	✓ All industries subject to Business License Fee	X Higher MBT rate for financial institutions and mining	✓ Proposes single MBT rate
Deductions for small businesses	✓ Small businesses with annual gross receipts less than $125,000 would pay $400 Business License Fee	✓ $100,000 gross receipts deduction, plus $200 Business License Fee	✓ Non-corporations would pay $300
Tax adheres to nexus principle (consumer-tax-good)	✓	✓	✓
Ease of Compliance	X More than two dozen rates	✓ Single rate, but new system	✓ Based on existing MBT system
Certainty of projected revenue estimates	X State currently lacks information on gross receipts	X State currently lacks information on gross receipts	✓ State has MBT data

THE ROAD AHEAD

In the pages that follow, the Guinn Center offers a series of policy considerations and recommendations. Many of these questions and recommendations are based on our analysis and on discussions and interviews with tax policy experts in other states (e.g., Kentucky, Ohio, and Washington) that have implemented gross receipts taxes.

POLICY CONSIDERATIONS

Question #1: What is the relative ease of compliance and administration?
Is the tax transparent, easy to understand, and easy to apply? What are the institutional costs associated with the tax proposal? What percentage of revenue will be lost to institutional transaction costs?

The elements of good tax policy suggest that a tax should be transparent and easy to administer and enforce, with relatively low transaction costs (e.g. administrative, compliance costs). Against this framework, the Business License Fee (SB 252) does not appear to meet these criteria. The Business License Fee has more than two dozen rates. The fiscal note for SB 252 is approximately $6.0 million for the 2015-2017 biennium and $8.2 million for future years. Among other things, the cost would include 24 full time equivalents (FTEs) and contract workers.

Here we briefly acknowledge the informative experience of Washington State, which has dozens of rates and exemptions. There, the Washington State Department of Revenue has 75 to 100 staff members dedicated largely to working on appeals by Washington companies that believe they qualify for a different tax rate than their current one. Based on Washington's experience, we are concerned that the administrative cost associated with the Business License Fee may be significantly underestimated.

The Supplemental Revenue Fee (SB 378) avoids the challenges of SB 252 by imposing a single rate on all businesses. But again, SB 378 is based on a new source of revenue – gross receipts, which will require a new system to implement. Similarly to SB 252, the fiscal note for SB 378 is approximately $5.9 million for the 2015-2017 biennium and $8.2 million for future years.[30] From the fiscal note, it appears that the project cost would include 24 full time equivalents (FTEs) and contract workers. That said, given that SB 378 has a single rate, we do not believe that the projected costs underestimate the number of FTEs needed to administer and enforce the new tax.

Similarly, AB 464 has a single MBT rate (1.56) for all businesses. The fiscal note for implementation appears to be approximately $304,419.[31] Of the three bills, AB 464 would be the easiest and least expensive to implement.

Question #2: Is the tax related to a compelling state interest?

State legislatures pass laws to address matters of public interest and concern. For example, a law that requires businesses to implement certain safety measures in the workplace advances the state's interest in having a healthy, safe workforce. All current tax proposals have been proposed by Legislators for the

[30] Executive Agency. Fiscal Note on SB 378. http://www.leg.state.nv.us/Session/78th2015/FiscalNotes/6483.pdf
[31] Executive Agency. Fiscal Note on AB 464. http://www.leg.state.nv.us/Session/78th2015/FiscalNotes/7507.pdf

purpose of raising revenues to fund an under-resourced K-12 educational system in Nevada. Certainly, policies, including tax increases, which seek to provide Nevada's residents with a high-quality education and produce an educated workforce advance the state's interest.

One could also argue that diversifying the state's revenue base and making the state more resilient to economic downturns is also a compelling state interest. Currently, gaming and sales and use taxes account for approximately 60 percent of Nevada's general fund revenues. These two sources of revenue, which account for almost two thirds of general fund revenues, correlate to economic downturns. During periods of economic stagnation or recession, individuals purchase less goods and are less likely to visit Nevada's gaming establishments. For example, gaming-related revenue fell 20 percent during the Great Recession,[32] and sales tax revenue fell more than 20 percent between 2008 and 2010.[33]

Given that the two primary sources of general fund revenues are vulnerable to economic downturns, one could argue that there is a compelling state interest in identifying a third source of revenues that can diversify the overall tax base and is less correlated to economic downturns.[34] The Business License Fee (SB 252) and the Supplemental Revenue Fee (SB 378) both seek to raise revenues by implementing a new source of revenue, based on taxing the gross receipts of businesses. A gross receipts tax is stable, would allow the State to capture growth, and would capture Nevada's changing economy.

In contrast, AB 464 raises revenues by increasing the existing MBT rate. Currently, the MBT accounts for 9.3 percent of the general fund revenues, and a mere 4.1 percent of all Nevada state and local revenues.[35]

Additionally, one could argue that the stability of the revenue base is a compelling state interest. And against this measure, all three tax proposals receive favorable review. As stated previously, national and local tax policy experts view gross receipts taxes as among the most stable. And the Modified Business Tax, upon which AB 464 is based, has proven quite predictable since its adoption.

Question #3: Is the proposed tax sufficiently broad-based and diverse to reduce Nevada's vulnerability to economic downturns?
Is it applied fairly across industries? Does the tax reflect Nevada's modernizing economy?

All three tax proposals seek to increase the amount of revenue and the number of businesses that would be subject to new and existing taxes based on either gross receipts or payroll.

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32 Pew Charitable Trusts. February 2014. Managing Uncertainty: How State Budgeting Can Smooth Revenue Volatility.
http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2014/VolatilityManagingUncertaintypdf.pdf; Moody's Investors Service, "New Issue: Moody's Revises Outlook on State of Nevada to Negative from Stable and Assigns Aa1 to $226 M General Obligation Bonds, Series 2010C-I" (November 2010).
33 The Pew Charitable Trusts. February 2014. Managing Uncertainty: How State Budgeting Can Smooth Revenue Volatility. Moody's Investors Service, "State Has Over $2 Billion of Net Tax-Supported Debt" (Nov. 30, 2010), https://www.moodys.com/research/MOODYS-REVISES-OUTLOOK-ON-STATE-OF-NEVADA-TO-NEGATIVE-FROM-New-Issue--NIR_16749447
34 Schlottmann and Restrepo. March 2015. Nevada's General Fund: Growth & Volatility. UNLV and RCG Economics.
35 Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC.; Alan Schlottmann and John Restrepo. March 2015. Nevada's General Fund: Growth & Volatility. UNLV and RCG Economics.

- All businesses would be subject to the Business License Fee (SB 252) of $400. Under SB 252, businesses that have gross receipts that exceed $125,000 would be subject to a tax that varies by industry and levels of gross receipts. Foreign companies would have to pay a business license fee of $400.
- Under SB 378, all businesses would be subject to a business license fee of $200. Businesses with gross receipts that total more than $100,000 would be subject to: a) a $200 business license fee and b) a tax of 0.465 percent on gross receipts, plus $200. Foreign companies would have to pay a business license fee of $400.
- Under AB 464, all corporations would have to pay a business license fee of $500. All others (e.g. sole proprietorships, limited liability corporations) would pay a fee of $300. Businesses that have more than $200,000 in payroll ($50,000 quarterly) would pay the MBT tax of 1.56 (an increase of 33 percent above the current 1.17 level). Foreign corporations would pay $500.

As previously noted, the gross receipts tax (the model upon which SB 252 and SB 378 are based) is viewed as one of the most stable and would provide a more stable source of revenue during periods of economic downturn.

An element of good tax policy is that the tax is applied as uniformly as possible across all industries and sectors. When viewed against this measure, the review of current tax proposals is mixed. SB 378 proposes leaving the MBT in place for mining companies and financial institutions. In sharp contrast, AB 464 proposes eliminating the Bank Excise Tax. Under AB 464, all businesses would pay the same rate of 1.56 percent, eliminating the requirement that financial institutions pay a higher rate of 2.0 percent.

SB 252 has more than two dozen rates that vary by industry. While SB 252's architects were interested in balancing the tax burden among the State's capital and labor-intensive businesses, the effective tax rates (based on Texas' economy and experience) are not clearly correlated with Nevada's economy and labor costs. The result is a series of effective tax rates whose differences cannot be readily explained.

Additionally, as a matter of good tax policy, taxes must adhere to the substantial nexus and non-discrimination rules. In other words, taxes must be imposed where there is a direct relationship between the taxable item, the tax jurisdiction, and the person making the purchase. Many proponents of the MBT (and AB 464) argue that there is a strong nexus between the MBT and the 'user' of human capital—namely labor intensive industries, such as the gaming and healthcare services industries. These "labor intensive industries generally create more demand for socioeconomic and physical infrastructure than capital intensive industries."[36]

However, this argument fails to acknowledge that capital-intensive businesses, such as telecommunications, may require high-skilled labor and high-quality education systems as well as infrastructure improvements, such as paved roads and modern highway systems that connect to other distribution centers, reliable and affordable power sources, access to water, etc. A gross receipts tax, as proposed by SB 252 and SB 378, would enable the State to increase the share of tax revenues paid by capital-intensive businesses that also create demand for social and physical infrastructure.

[36] Jon Ralston. Seven weeks to see how the tax chips will fall. April 13, 2015. *Reno Gazette Journal*. http://www.rgj.com/story/opinion/2015/04/12/ralston-seven-weeks-see-tax-chips-will-fall/25614963/

Finally, we assess whether the proposed tax plans align and reflect the state's modern economy. First, while the MBT captures Nevada's current economy, it may not align with Nevada's economy tomorrow. Nevada seeks to grow the aerospace/unmanned aerial systems industries, data centers and co-located businesses, business and logistics, clean energy, and health sectors. Table 6 below presents the share of jobs in the sectors identified as high priority by Governor Sandoval and the Governor's Office of Economic Development (GOED). Employment in logistics and operations has grown from 5.1 to 5.4 percent over the period 2005-2014.

Table 6. Nevada's Economic Development Sector Job Shares: 2005 - 2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Aerospace & Defense	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
Agriculture	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Business Information Technology Ecosystems	4.8%	4.6%	4.4%	4.0%	3.8%	4.0%	4.2%	4.3%	4.4%	4.5%
Clean Energy	3.0%	3.0%	2.9%	2.8%	2.4%	2.1%	2.0%	1.9%	1.9%	2.0%
Health & Medical Services	5.8%	5.7%	6.0%	6.3%	7.1%	7.4%	7.7%	7.7%	7.8%	7.8%
Logistcs & Operations	5.1%	5.2%	5.4%	5.5%	5.5%	5.4%	5.4%	5.5%	5.4%	5.4%
Manufacturing (not in other sectors)	2.6%	2.6%	2.5%	2.4%	2.1%	1.9%	1.9%	2.0%	2.0%	2.0%
Manufacturing (Total)	3.8%	3.8%	3.8%	3.7%	3.4%	3.3%	3.3%	3.4%	3.4%	3.4%
Mining	0.8%	0.9%	0.9%	0.9%	1.0%	1.1%	1.2%	1.3%	1.3%	1.2%
Tourism, Gaming, & Entertainment	30.8%	30.4%	30.5%	30.7%	31.1%	32.0%	32.5%	32.3%	32.2%	32.1%
Other Industries	41.5%	41.8%	41.8%	41.8%	42.0%	41.1%	40.0%	40.0%	40.1%	40.1%
Total Nevada Job	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Data from Governor's Office on Economic Development (GOED).

To underscore the potential vulnerability of a state tax base that relies on labor-intensive industries, we refer to the testimony offered by Ray Bacon, Executive Director of the Nevada Manufacturers Association, during which he expressed support of AB 464. During the course of his testimony, Bacon suggested that the MBT, or a tax based on payroll, may not serve the State over the long term. He stated:

> "The manufacturing community is going to continue to reduce payrolls as we gain productivity, that's the way you stay in business in the manufacturing sector. As we have the ability to automate, that's probably going be one of the things that happens in all sectors, so as those labor intensive sectors, 20 years from now, or 30 years from now, it's probably going to be less payroll. […] That's

> a negative for the MBT, but the reality of the situation is: that's the reality of the situation. Will the MBT last forever? No, but [AB 464] is a huge step in the right direction."[37]

As illustrated in Table 4, the share of employment in the manufacturing sector has fallen from 3.8 to 3.4 percent. It appears, then, that a gross receipts tax might be a more ideal tax, one that is better designed to capture Nevada's (slowly) changing economy, which the Governor hopes to diversify and grow its capital intensive, highly-skilled industries.

Some national and local policy analysts, including the Tax Foundation, have suggested that Nevada consider a tax on services. A gross receipts tax, however, could incorporate much (if not all) of the business activity that would be picked up by the services tax, while broadening the tax, and would minimize the State's vulnerability during economic downturns. For these reasons, Legislators should consider adopting a tax proposal based on gross receipts (SB 252 and SB 378).

Question #4: Does the tax reflect efforts to undertake broader tax reform?

The Guinn Center applauds the efforts by Legislators to present various plans for raising revenues to fund Nevada's under-resourced education system. The Guinn Center acknowledges that all of the tax proposals contain elements that support broader tax reform. SB 252 and SB 378 seek to diversify Nevada's tax base by identifying a new revenue source (gross receipts) that is stable and should help make Nevada more resilient during economic downturns. AB 464 makes important and much-needed headway in reducing the patchwork nature of Nevada's current tax structure by reducing deductions and disparate treatment of the financial services sector.

RECOMMENDATIONS

The Guinn Center offers a series of recommendations to inform the debate as Legislators continue to discuss tax reform and ways to increase revenues. These recommendations have been informed by recent policy discussions during Legislative sessions, as well as interviews with tax policy analysts in other states with gross receipts taxes.

1. Adopt a gross receipts tax.

There is a compelling state interest to diversify Nevada's tax structure and grow revenue base. A gross receipts tax, as proposed by SB 252 and SB 378, would diversify Nevada's tax base, thus reducing Nevada's vulnerability to economic downturns, and would allow Nevada's revenue base to grow as the economy grows. Currently approximately 60 percent general fund revenues are derived from two sources: gaming taxes and sales and use taxes. The Business License Fee, which the 330,000 businesses registered in Nevada are required to pay, is not structured in such a way that captures the growth of the business or the State's economy. And only 4 percent of the 330,000 registered businesses in Nevada pay the Modified Business Tax (MBT), a payroll tax.

[37] Ray Bacon. Testimony on Assembly Bill 464 before Assembly Committee on Taxation (808). April 7, 2015. (Testimony begins around 1:18 of video). http://www.leg.state.nv.us/Session/78th2015/Agendas/Assembly/TAX/Final/808.pdf

2. Adopt a single/limited gross receipts tax rate.

Under SB 252, the revised Nevada Business License Fee structure has approximately two dozen rates. The different rates introduce greater complexity and uncertainty.[38] Interviews with tax policy officials in other states that have a gross receipts tax (e.g. Kentucky, Ohio, and Washington) underscored the benefit of having a single or limited rates. Tax policy officials noted that the wide range of rates had increased the administrative cost of administering and collecting revenues.[39] 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. We acknowledge that SB 378 has the benefit of proposing a single rate, albeit higher than SB 252 (since it has to recoup revenues lost with its simultaneous provision to eliminate the MBT, which improves ease of implementation and compliance). The following table contains examples of how states with gross receipts have adopted a single/limited rate.

Comparative Examples of Other States with Gross Receipts Taxes and Limited Rates

Kentucky	Limited Liability Entity Tax (LLET)[40]	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.[41]	The LLET is a tax on the 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.
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.	CAT applies to all businesses, including sole proprietorships, partnerships, LLCs, S corporations, with taxable gross receipts of more than $150,000 annually. Businesses that have gross receipts less than $150,000 are not subject to CAT, but do pay the Alternative Minimum Tax (AMT). For the AMT, filers with annual gross receipts of more than $150,000 are subject to the AMT. $150 for filers with $150K- $1M in gross receipts; $800 for filers with $1M-$2M in gross receipts; $2,100 for filers with $2-$M in gross receipts; $2,600 for filers with more than $4M in gross receipts.[42]

[38] See Texas Comptroller of Public Accounts. The Business Tax Advisory Committee Report to the 83rd Texas Legislature: January 2013, Table 12, State Direct Taxes and Fees on Business 2011, page 40. Available: http://www.window.state.tx.us/taxinfo/btac/96-1364_BTAC_Report_2013.pdf

[39] According to one source, analysts from Ohio visited Washington and after talking to tax policy experts there, opted for a single rate, tiered (graduated) system.

[40] Bingham Greenebaum Doll. July 1, 2008. Kentucky's Limited Liability Entity Tax. http://www.bgdlegal.com/news/2008/07/01/articles/kentucky-s-limited-liability-entity-tax/

[41] State of Kentucky, Department of Revenue. Corporate Income Taxes. http://revenue.ky.gov/business/corptax.htm

[42] Ohio Department of Taxation. Annual Report 2014. http://www.tax.ohio.gov/Portals/0/communications/publications/annual_reports/2014_Annual_Report/2014_AR%20Final%20021315.pdf

Texas	Franchise Tax	Rates are 1.0 percent for most entities; 0.5 percent for wholesalers, retailers; 0.575 percent for entities with $10 million or less in total revenue.[43]	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.

3. If SB 252 tax rates are adopted as proposed, establish an Interim Legislative Committee to improve collection of information on businesses operating and Nevada and review (and revise) preliminary rates as better information is collected regarding the rates.

The Guinn Center has stated that while it believes SB 252 contains elements of good tax policy, we have concern with the rates as proposed. First, the two dozen rates increase the transaction costs related to implementation and compliance. Interviews with tax policy analysts in other states revealed the challenges of a system with many rates. Second, as illustrated, the proposed rates do not correlate with Nevada's economy, the national profitability of the industry, and state and local labor costs. As such, the Guinn Center recommends imposing a single or limited Business License Fee rate(s). However, if adopted as proposed without amendment, the Legislature should establish an Interim Legislative Committee to review the rates to ensure that rates accurately reflect and capture Nevada's economy. This review should take place after the first year. Legislators should require that BLF rates are reviewed every four years.

4. Allow companies to file consolidated returns.

One of the frequent criticisms of gross receipts taxes is that it may lead to pyramiding, the imposition of a tax on each stage of production. Tax policy experts in other states with gross receipts taxes suggest that one way to reduce pyramiding is by allowing companies (particularly those that are vertically integrated) to file consolidated returns. If a gross receipts tax is passed (either SB 252 or SB 378), the Legislature should consider allowing companies to file consolidated returns. Nevada tax authorities will have to explore how an option allowing consolidated returns could impact overall revenue projections.

5. Eliminate MBT health care premium deductions and reduce payroll deductions.

Regardless of whether Nevada Legislators adopt a gross receipts tax, the Guinn Center acknowledges that AB 464 contains elements of good tax policy. Specifically, the Guinn Center views favorably AB 464's provisions that seek to improve Nevada's overall tax policy structure by reducing and/or eliminating deductions. The Legislature should eliminate MBT health care premium deductions and reduce payroll deductions.

6. Eliminate the higher rate MBT for financial institutions and mining.

Similarly, the Guinn Center supports AB 464's provision to eliminating industry-specific tax rates and the unequal treatment of financial institutions. Regardless of whether the MBT rate is modified (per AB 464), the Guinn Center believes that all businesses should be subject to the same MBT rate as a matter of good tax policy that avoids single industry taxes or rates. For the same reason, Legislators should eliminate the Branch Bank Excise Tax fee. Principles of good tax policy discourage single-industry taxes. Here we propose

[43] Texas Comptroller of Public Accounts. Franchise Tax: Frequently Asked Questions. http://www.window.state.tx.us/taxinfo/franchise/faq_rpt_pay.html#rpt_pay1

eliminating the higher MBT rate for the mining industry, which remains in place under SB 252. Under AB 464, the mining industry would pay the same rate as other industries in Nevada.

7. Implement a gross receipts tax with single/limited rates (or tiered rates) and revise the MBT to eliminate/reduce deductions and eliminate industry-specific rates.

Based on principles of good tax policy and much needed reform of Nevada's overall tax system, the Guinn Center would recommend that Legislators adopt the various elements of good tax policy contained in each of the tax proposals under consideration.

- In order to diversify Nevada's tax base, <u>implement a gross receipts tax</u>, which would reduce the State's vulnerability to economic downturns and would grow with Nevada's economy as it continues to diversify and grow those industries that are more capital intensive (SB 252 and SB 378).
- <u>Adopt a single (or limited) gross receipts tax rate</u> that will reduce the costs of administration and compliance (SB 378).
- Given that Nevada does not collect information on gross receipts currently, Legislators should consider adopting <u>both a gross receipts tax and AB 464</u>.
- Eliminate healthcare premium deductions and reduce payroll deductions (AB 464).
- Eliminate industry-specific taxes (directed at financial institutions and mining) and eliminate the Bank Excise Tax.
- Upon adoption of a gross receipts tax, explore the possibility of reducing the MBT rate (as proposed under AB 464 at 1.56) so as to meet desired revenues for 2015-2017 biennium. (Our preliminary analysis suggests that upon adoption of SB 252 and AB 464, the MBT rate could be lowered from the proposed 1.56 to approximately 1.35-1.40).
- Establish an Interim Legislative Committee that would review SB 252 BLF rates and the combined impact of SB 252 and the MBT (existing rate or higher AB 464 rate) on industries. Policymakers should ensure that the share of tax revenues generated by SB 252 and the MBT (existing or AB 464) are not disproportionately borne by handful of industries. Table 7 presents proposed BLF rates and the current MBT tax collections by industry. We observe that the proposed BLF rate for the accommodation industry, for example, is 0.22 percent (higher than the average rate of 0.163) and the current industry share of MBT collections is almost 17 percent.
    - The Interim Legislative Committee should ensure the State works to improve the quality of data collected by businesses operating in the state of Nevada. Additionally, the data compiled by the Nevada Department of Taxation on gross receipts estimates should be made available to the public.

8. 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. 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.

9. 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."[44] 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?
- 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?

Table 7. Comparison of Proposed SB 252 Tax Rates and MBT Tax Collections by Industry[45]

A	B	C
Industry	**Business License Fee Rate**	**MBT Tax Share** (2013)
Rail Transportation	0.36%	5.2%
Telecommunications	0.33%	1.6%
Educational Services	0.31%	0.7%
Waste Management Services	0.29%	9.8%
Publishing	0.28%	1.6%
Software	0.28%	1.6%
Data Processing	0.28%	1.6%
Real Estate	0.27%	1.9%
Arts, Entertainment & Recreation	0.26%	2.0%
Truck Transportation	0.22%	5.2%
Accommodation	0.22%	16.9%
Food Services (including restaurants)	0.21%	4.8%
Health Services	0.21%	10.4%
Professional Services	0.20%	7.1%
Administrative and Support Services	0.17%	9.8%
Other services	0.16%	3.1%
Management of Companies	0.15%	9.8%
Utilities	0.15%	0.8%
Other Transportation	0.14%	5.2%
Warehousing & Storage	0.13%	5.2%
Retail Trade	0.12%	8.1%
Financial Activities	0.12%	9.8%
Wholesale Trade	0.11%	4.6%
Construction	0.10%	5.9%
Manufacturing	0.10%	4.4%
Agriculture	0.07%	0.1%
Air Transportation	0.06%	5.2%
Mining	0.06%	2.7%
Unclassified	0.14%	
AVERAGE	**0.16%**	
Non-Employer Companies	$400 fee	
Foreign Filers	$400 fee	

[44] Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC.

[45] Office of the Governor, State of Nevada. January 2015. Business License Fee Facts. Liz Malm, Joseph Henchman, Jared Walczak, and Scott Drenkard. 2015. *Nevada: Simplifying Nevada's Taxes: A Framework for the Future*. Tax Foundation: Washington, DC.

We conclude where we began by applauding the efforts of Nevada's political leaders and decision-makers to raise revenues for the State's under-resourced education system. We support Legislators' efforts to explore ways to raise revenues in ways that are fair and balanced and to consider reforms to an antiquated tax structure that does not reflect Nevada's rapidly growing and modernizing economy.

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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