



# 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)<sup>1</sup>

	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)
<b>Governor Examples</b>						
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%
<b>Business Examples</b>						
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

<sup>1</sup> 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**

<b>Kentucky</b>	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.
<b>Ohio</b>	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.
<b>Texas</b>	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 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%

**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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**Address**

Kenny C. Guinn Center for Policy Priorities  
 c/o InNEVation Center  
 6795 Edmond Street, Suite 300  
 Las Vegas, NV, 89118  
 Phone: (702) 522-2178  
 Email: [info@guinncenter.org](mailto:info@guinncenter.org); Website: [www.guinncenter.org](http://www.guinncenter.org)

**Contacts**

Dr. Nancy E. Brune, Executive Director  
 Phone: (702) 522-2178  
 Email: [nbrune@guinncenter.org](mailto:nbrune@guinncenter.org)

Victoria Carreón, Director of Education Policy  
 Phone: (702) 522-2178  
 Email: [vcarreon@guinncenter.org](mailto:vcarreon@guinncenter.org)