



Legislative Testimony

Assembly Bill 464: Hybrid Tax Proposal

April 7, 2015

Testimony before the Assembly Committee on Taxation

Prepared Statement of the Kenny Guinn Center for Policy Priorities

The Guinn Center has prepared scenarios showing the impact of AB 464 compared to current and past tax proposals: the Business License Fee (SB 252); the Supplemental Revenue Fee (SB 378); the 2003 Gross Receipts Tax; the 2011 Margin Tax; the 2014 Margin Tax; and the Modified Business Tax (MBT) (see Table 1).

- Under AB 464, effective tax rates on gross receipts would be higher for most businesses than the current MBT due to elimination of the health care exemption, reduction in the quarterly deduction from \$85,000 to \$50,000, and an increase in the tax rate from 1.17 percent to 1.56 percent.
- 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.
- 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. In addition to financial activities, construction, health services, and retail trade would all have a lower effective tax rate under AB 464 than SB 252 and SB 378.
- The effective tax rates under AB 464 are lower than under the 2014 Margin Tax proposal.

Table 1: Comparison of Effective Tax Rates under AB 464 and Other Proposals

	Revenue	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Gross Receipts Tax 2003	Margin Tax 2011 + MBT	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
Governor Examples								
A. Construction	2,000,000	0.216%	0.462%	0.339%	0.194%	0.280%	1.400%	0.129%
B. Financial Activities	5,500,000	0.213%	0.548%	0.024%	0.230%	0.458%	1.400%	0.084%
C. Health Services	27,000,000	0.381%	0.465%	0.257%	0.246%	0.539%	1.400%	0.172%
D. Retail Trade	17,000,000	0.161%	0.465%	0.066%	0.243%	0.527%	1.400%	0.034%
Business Examples								
1. Construction Subcontractor	1,476,000	0.380%	0.461%	0.701%	0.174%	0.291%	0.686%	0.291%
2. Commercial Insurance Broker	1,834,000	0.405%	0.461%	0.604%	0.189%	0.278%	1.043%	0.278%
3. Small Medical Practitioner	3,790,000	0.607%	0.463%	0.599%	0.220%	0.396%	1.143%	0.396%
4. Automotive and Accessories Retail Sales	31,137,000	0.251%	0.465%	0.207%	0.246%	0.270%	0.740%	0.129%
5. Real Estate Broker	15,186,000	0.630%	0.465%	0.550%	0.243%	0.456%	1.272%	0.351%
6. Telecommunications Business	23,114,000	0.499%	0.465%	0.245%	0.245%	0.536%	1.400%	0.162%
7. Average Large Las Vegas Strip Casino	654,772,409	0.355%	0.295%	0.309%	0.158%	0.354%	0.887%	0.207%
8. Restaurant with 15 Slots	1,300,000	0.211%	0.460%	0.146%	0.040%	0.000%	0.646%	0.000%
9. Gold Mine	100,000,000	0.133%	0.337%	0.186%	0.074%	0.554%	1.400%	0.115%

Impact on Small Businesses

AB 464 is primarily a payroll tax, so it would affect small businesses differently than SB 252 and SB 378, both of which are based on gross receipts. Many single proprietors begin as non-corporations and do not have payroll. Under AB 464, these businesses would pay a \$300 Business License Fee. Businesses with less than 66 2/3 percent of the average annual wage (\$28,100) would not be subject to the Business License Fee. If a small business is a corporation, the Business License Fee under AB 464 would be \$500, an increase of \$300 from the current business license fee. Under AB 464, a small business would begin paying the MBT once it has payroll over \$50,000 per quarter. Table 2 compares the impact of the various tax proposals on a small

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professional services business at different gross receipts levels. [Note: this analysis assumes the business is not a corporation and has no payroll until it reaches annual revenue of \$200,000. At that point, payroll is equal to 50 percent of revenue.]

Table 2: Effective Tax Rate on Small Professional Services Business

No.	Revenue	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Gross Receipts Tax 2003	Margin Tax 2011 + MBT	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
1	25,000	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2	50,000	0.800%	0.400%	0.600%	0.000%	0.000%	0.000%	0.000%
3	100,000	0.400%	0.200%	0.300%	0.000%	0.000%	0.000%	0.000%
4	125,000	0.320%	0.413%	0.240%	0.000%	0.000%	0.000%	0.000%
5	200,000	0.202%	0.433%	0.250%	0.000%	0.000%	0.000%	0.000%
6	400,000	0.203%	0.449%	0.125%	0.000%	0.000%	0.000%	0.000%
7	600,000	0.206%	0.454%	0.343%	0.063%	0.000%	0.000%	0.000%
8	800,000	0.251%	0.457%	0.453%	0.109%	0.047%	0.047%	0.047%

Does AB 464 Reflect Elements of Good Tax Policy?

- Stable and Predictable: AB 464 is primarily based on payroll, which makes it stable and predictable for businesses and the State.
- Broad based and low: AB 464 is more broad-based than the current MBT because it reduces the quarterly payroll exemption from \$85,000 to \$50,000. Currently, only 3.8 percent (12,520) of Nevada businesses with employees pay the MBT. Under AB 464, approximately 5.5 percent (18,258) of businesses would pay the MBT. Other businesses would pay the Business License Fee of \$300 or \$500. Similarly to SB 252, all businesses would be affected.
- Fair and simple, protect economic competitiveness: The MBT under AB 464 is simple to calculate.

Options for Consideration

- Increasing the Modified Business Tax may be a good short-term solution until the State has sufficient time and information to implement a gross receipts tax. AB 464 includes a provision to obtain gross receipts data. From 2015 through 2021, it requires businesses to annually report their business activity code, gross receipts, and whether these receipts are within or outside the State.
- To ensure revenue stability, phase out the Modified Business Tax over time.
- Develop corrective measures in case revenue projections are not realized.

See related report and detailed spreadsheets: *The Business License Fee: What We Still Don't Know* and its forthcoming report, *Comparison of 2015 Tax Proposals in Nevada*.

<http://guinncenter.org/publications/policy-reports/#GoverningNevada>

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