REVENUE PROPOSALS FOR CONSIDERATION BY THE GOVERNOR'S TASK FORCE ON TAX POLICY

Presented by
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Please Note: The proposals in this document have been developed from a series of surveys addressing both general and specific revenue proposals and general expenditure proposals conducted of the Board of Directors over the last 12 months. By Board policy both a super majority response (60 percent) to the survey and a super majority response (55 percent) to each question is required for position to be taken or a proposal to be submitted. Appendix B contains a list of the Association's Board of Directors.

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PROPOSALS TO PROVIDE INCREASED EFFICIENCIES AND REVENUE ENHANCEMENTS TO THE TAXES AND FEES COLLECTED BY THE STATE

1. Agencies which generate significant revenues in support of the State's General Fund should provide for electronic fund transfers and accept credit cards for payments due.

REASON: This would eliminate "float time" and allow additional interest income to be generated.

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2. Electronic reporting should be required in conjunction with #1 (above).

REASON: There are multiple advantages to electronic reporting. With electronic reporting errors are minimized because there is a reduced incident of transposing numbers; the agency does not have to input the data which also minimizes the chance of reporting errors; agency expenditures, such as the costs associated with the handling, printing and mailing of forms, can be reduced.

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3. Provide that all revenue generating agencies will receive funding priority for technology enhancements, upgrades and training, in order to allow revenue collections to be maximized.

REASON: The Attorney General's Office issued an Opinion in July of 2001 that clarifies when the Use Tax collection allowance is permitted (only a business that is collecting the tax is entitled to the collection allowance). However, the Department of Taxation has been unable to implement the change because its computer system ("Aces") cannot accommodate the change.

(Please see recommendation # 4 under "State General Fund Revenue Reforms".)

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4. Permit the Sales and Use Tax collection allowance only if the tax is remitted in a timely manner.

REASON: Currently whether the tax is remitted one day or one year after it is due the collection allowance is statutorily permitted.

Note: Penalty and interest is applied to late payments.

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5. All businesses should be required to register for Nevada Use Tax.

REASON: Statute requires registration only for the Sales Tax component of the Sales and Use Tax. Smaller, non-retail businesses can easily forget that they should be reporting the Use Tax. Registration for Use Tax could be required at the same time an individual or business registers for the Business Tax. This would allow the Department of Taxation to send out periodic reminders, with forms as appropriate.

[1] Sales and Use Tax is made up of 5 components. Any revenue derived would be allocated as follows: 2% to the State; 2¼% to the Local School Support Tax; and the remainder (from 2¼% to 3¼% to local government) for the basic city-county relief tax, the supplemental city-county relief tax and local options.

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6. Reduce the Sales and Use Tax Collection Allowance provided to retailers from 1¼ % to 1 %.

REASON: The Collection Allowance is provided to retailers because they are required to act as tax collectors for the state. The current Allowance (on the Sales Tax remitted) is 1¼ %. Reducing the Collection Allowance would generate additional revenue for the State.

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7. ***Change the date that retailers are required to remit their Sales and Use Tax payments to "20 days after the reporting period".***

REASON: The current date to remit the tax is 30 days after the period in which the Sales and Use Tax is collected. Reducing the date of remission by 10 days would allow the state to generate additional interest income.

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8. ***Add a requirement to NRS 338 (Public Works Statute) requiring contractors and subcontractors to be registered for all applicable licenses and with he Department of Taxation before being eligible to be awarded a bid or to work on a project.***

REASON: Unless a bidder on a public works project is asking for "bidders preference" there is no requirement that a successful bidder to have anything other than a State Contractors License. (Also see Recommendation Number 7.)

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9. Add a requirement to all of the chapters contained in Title 54 of Nevada Statutes - "Professions, Occupations and Businesses" that before a license can be issued to an applicant who will be conducting business in Nevada that person or business must be registered for any other applicable licenses and with the Department of Taxation.

REASON: This would ensure that all businesses and individuals that should be registered will be registered. This would not apply to an individual who must be licensed but will be an employee of a business he does not own (i.e., an accountant or engineer who will working for an accounting or engineering firm.)

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10. Establish a systematic review of all tax exemptions to eliminate or modify those that no longer meet a policy objective and require future exemptions to be reviewed after a specific time period to determine if they should be continued.

REASON: The review of exemptions can identify those which can be eliminated and might generate additional revenue by their elimination.

STATE GENERAL FUND
REVENUE REFORM

1. All generally imposed taxes which are earmarked in whole or part for programs within the State's general fund should be eliminated.

REASON: The executive and legislative branches should determine the necessary level of funding for programs based on the needs of the program within given periods. Earmarking a specific source almost always eliminates accountability and does not take in to account the priority of the program or function on an ongoing basis.

Two examples of earmarked funds are: (1) 15 cents of the tax collected on liquor with an alcohol content of over 22% is earmarked for alcohol programs; and (2) an amount equal to 10 cents for each $500 of the real property transfer tax (this is a local tax) is remitted to the state general fund for deposit to the Low Income Housing Trust Fund. Both of these programs should be funded based on need and their priority within the overall scheme of things, not because they have a dedicated source of funding.

2. Both the $5 million dollar Disaster Relief Fund and the $500,000 Emergency Assistance fund should be eliminated. The use of the Rainy Day Fund should be modified to accommodate the needs addressed by these two funds.

REASON: If there is a need for either fund, they do not have sufficient funds allocated to address the need. Case in point were the winter (1998) floods that impacted the Reno, Henderson and Boulder City. The $5 million in the Disaster Relief fund was insufficient to accommodate the requests by these entities to mitigate the damage done by the floods. The Fund had to be restored (per statute) which then meant $5 million less for another state need. (See following recommendation, #3.)

3. Create sub accounts within the Rainy Day Fund to accommodate Disaster Relief and Emergency Assistance.

REASON: Specify a percentage of the Rainy Day Fund that could be used under the conditions currently specified for Disaster Relief and Emergency Assistance. These sub-accounts could be established as you would a revolving loan fund so that there would be repayment of funds distributed, thereby maintaining the integrity of the Rainy Day fund. Additionally, if the percentage allowed to be "borrowed" from the rainy day fund is in the range of 10 to 15% more revenue would be available for the mitigation of disasters.

4. Spending priorities should be established if the May 1 revenue projections by the economic forum are greater than the projections used to submit the state's general fund budget.

REASON: When the Economic Forum updates their revenue projections on May 1 of the legislative year and projects an increase in revenue there is no apparent rhyme or reason as to how the increased revenue will be spent.

At the very least the following spending priorities should be established to provide that a percentage of any additional forecast revenue will:

a. Be deposited in the State's Rainy Day Fund (to the total allowed by statute);
b. Be used to establish a technology revolving loan-fund for state agencies [1,2]; and
c. Be used when there is a need to have matching funds for a federal program.

Currently, the purchasing of upgraded or new technology (hardware and software) and the technology training provided to the staff of an agency either means one of two things: (1) that services and programs provided by the agency will suffer because of redirecting the agency's funds to their technology needs; or (2) funds are allocated over a period of three to six years rendering technology purchases obsolete as soon as they delivered.

Continued Page 4

The establishment of this fund would allow agencies, that have approved plans, to put the necessary upgrades. in place much faster. These upgrades should allow: better tracking of the services and programs the agency is required to provide; allow the institution of more cost efficient and effective methods to handle the collection of revenue and data; and reduce paper handling. Additionally, funds would be available for staff training to assure maximum utilization of the technology.

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[1] This could either be a process of grants, loans of 5 to 10 years, or a combination of both.

[2] This should sunset after a specified period of time, to ensure that if it is no longer needed it will be eliminated.

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5. Vacant positions within a general fund agency should be time-limited to 12 months.

REASON: If a general fund agency/department has unfilled positions for a period longer than 12 months, and the agency has been able to function at an acceptable level, the position(s) should be automatically eliminated unless there is a specific justification for keeping the position open. This justification should be noted in the budget document.

The current practice does not provide for the mandatory elimination of positions vacant for 12 months or longer. According to various published reports there are between 1,000 and 1,500 vacant positions of which the greater majority appear to have been vacant since December of 1998.

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6. The state should develop program budgets when applicable.

REASON: Where multiple agencies and levels of government provide similar programs, those agencies budgets should be program-based. This would allow the establishment of non-conflicting priorities, provide program continuity and minimize administrative cost. (For example: Currently Substance Abuse Programs are provided directly and indirectly by: Department of Prisons, Department of Drug and Alcohol, Various District Courts, the State Department of Education, individual school districts, etc.)

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7. Maximize the use of federal funds received by Nevada State and local governments by coordinating the use and expenditure of the funds.

REASON: Funds are made available at both levels in some programs, the establishment of a coordinating point would ensure that programs and related administrative expenses do not result in duplication but rather enhancement of the program(s) provided and citizens serviced.

REVENUE ENHANCEMENTS

THE BUSINESS TAX

1. Establish an annual state Business License Renewal Fee for all businesses (individuals, companies, etc) that do business in Nevada.

REASON: This would not only provide an annual revenue source, but as important, would allow a data-base of businesses operating in Nevada to be established and maintained.

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2. Clarify the statutory conflict that exists between NRS 364A.130 and NRS 364A.160 so that even one employee, including a sole proprietor is subject to the quarterly tax.

REASON: The conflict has created an inconsistent interpretation of the tax and subsequently the correct application of the tax. Either the tax should apply to every employee, including the sole proprietor, or the first person of any business including a corporation should be exempted.

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3. Increase the quarterly rate per full-time employee equivalent.

REASON: Since the tax was imposed in 1991, the rate has been $25 and while the revenue generated by the tax has almost doubled during the time it has been in effect, the rate could be adjusted upward to provide additional revenue.

SECRETARY OF STATE FEES

*4. **Increase the annual filing fee for all for-profit entities. Should be increased?*** [1]

REASON: The current fee for filing the annual list is $85.00. This fee could be increased $25.00 to $110.00. Keeping the increase minimal would address the concern expressed by the resident agents over the first version of SB 577 [2]. That concern was that individuals or businesses with a number of entities or business trusts would choose to file elsewhere thereby reducing the revenue received from the filings instead of enhancing the revenue.

[1] All For-profit Corporations, Limited-liability Companies, Partnerships, Limited Partnerships, Business Trusts, Professional Associations.

[2] During the 2001 legislative session Senate bill 577 which was signed into law increased the initial and special fees charged by the Secretary of State's Office, not the annual filing fee.

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5. Also increase the filing fee (initial and annual) for non-profit corporations.

REASON: The current fee for filing the initial and annual list for non-profits is $15.00. This fee could be increased $10.00 to $25.00 which is probably closer to the amount that it costs to process the paperwork.

SALES TAX

6. Expand the Sales and Use Tax base to include those services that are purchased in conjunction with the sale of tangible goods [1]. (There should also be an accompanying rate reduction.)

REASON: To reduce the revenue fluctuations from the Sales and Use Tax, the base needs to be expanded. The current application reflects a time (1955) when the country including Nevada was not a service based economy. The expansion of the base toservices purchased in conjunction with tangible goods has many benefits. Among those benefits are: retailers of goods are already registered with the department of taxation to collect sales tax; retailers who currently provide services in conjunction with the sale of tangible goods would be competing on a level playing field with businesses that only provide the services and are currently exempt from collecting the tax; adding the service component would make it less likely that internet sales would eventually cause diminishing returns from this type of base expansion.

[1] For example: The installation, assembly or alteration of a tangible product whether the installation assembly or alteration of a product is performed by the business that sold the product or an independent contractor or business.

PROPERTY TAX

7. Increase the statutory cap on Property Tax of $3.64 per $100 of assessed value to allow a specific, additional levy for operating to be imposed, either for the state, for schools or a combination of both.

REASON: The 1981 Tax Shift legislation statutorily capped the property tax rate to $3.64 per $100 of assessed valuation. A statewide rate to increase the school operating rate or provide the state with an operating rate cannot currently occur because there are a number of local governments that are at the $3.64 cap. This is one of the simplest ways for the State to generate revenue.

TAX RESTRUCTURING

8. Repeal the existing Entertainment Tax and Boxing and Wrestling Fees (tax) and create a Transaction Tax on amusements, admissions, and entertainment.

REASON: This would be a better reflection of the economic activity in the State and as with the two taxes it would replace it would remain a State revenue source. It is considered the most "progressive" of the consumption taxes.

MISCELLANEOUS REVENUE PROPOSALS

9. Amend the Nevada Constitution to permit a State Lottery.

REASON: The issue of a lottery has been raised a number of times since the end of the 1980's. This recommendation comes with the realization that unto itself a lottery will not solve the revenue issues addressed by ACR 1. However, if approved by the voters and carefully structured [1] it could become part of a long range revenue enhancement.

[1] Because of somewhat less than stellar experiences in other states with lotteries, if a lottery were to be approved by the voters, the receipt of meaningful revenue would require Nevada to participate in a "power ball". Additionally to avoid the pitfall of "instability", the revenue received should: (1) be capped as to the percentages spent for administration and operating (including marketing expenses), (2) be placed in a trust fund; (3) permit only the interest earned off the principle to be expended; and (4) allow only expenditures for essential services - - - public safety and health, education and transportation.

10. If Yucca Mountain is to become a nuclear waste repository the State should: (1) negotiate for funds for research, transportation, education and public safety and health; and (2) impose a tax for the transportation of the waste.

(PLEASE NOTE: The Association has taken no position with regards to the siting of a nuclear waste repository at Yucca Mountain, as the issue is outside of its purview.)

REASON: As Congress has approved the siting and the State will file lawsuits, depending on how the strategies unfold it might be possible to obtain "mitigation funds." Additionally, if after all is said and done the repository is to become a reality at the very least a tax should be imposed for the transportation of the waste.

DISTRIBUTION RESTRUCTURING

11. Establish a trust fund for that portion of the Net Proceeds of Minerals Tax which accrues to the State for rural counties.

REASON: Prior to 1989 the Net Proceeds Tax was a local government revenue source. In 1989 the voters approved an amendment to Nevada's Constitution to restructure the tax. The legislature subsequently enacted statutory changes so that a portion of the revenue derived from the net proceeds would also accrue to the State. Unfortunately, economic conditions faced by the industry in the last 5 years have made this a diminishing revenue source to both the local governments and the State. The State which envisioned receiving revenues of over $50 million dollars (and greater) will just about receive $11 million dollars this year. Rural local governments which have mining as their primary economic base and rely on mining revenues have experienced similar declines in this revenue source. It can be expected that these rural governments will look to the State to "bail" them out. And in fact this has already occurred with the White Pine County School District. As this never became the significant revenue source for the State that had been anticipated, it makes sense to redirect the State share into a trust fund to assist rural counties.[1]

[1] This could be done over a 4 or 5 year period (commencing in 2005 so as not to impact the next biennium budget) by setting aside 20% to 25% each year until 100% was going to the fund. The fund could be created so that only the interest is used to offset emergency expenses dealing with education, public safety and health, transportation, and environmental issues.

APPENDIX A: REVENUE INFORMATION

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ADMISSIONS AND AMUSEMENT TAX ANALYSIS WHITE PAPER
EXECUTIVE SUMMARY

The Nevada Taxpayers Association (the NTA) has been exploring a number of fiscal (tax and expenditure) options and alternatives aimed at addressing both the short-term and long term fiscal issues which face the state. In reviewing the existing taxes which make up the state's revenue mix, one of the options for consideration was a restructuring of the existing Casino Entertainment Tax and Boxing and Wrestling Fees.

Applied Analysis was retained by the Nevada Taxpayers' Association early last fall to review and analyze the potential for an admissions and amusement transaction tax in the State of Nevada. Specifically, this analysis focused on the potential tax base as well as the theoretical rate required to offset revenues generated by existing, similar levies (e.g., Casino Entertainment Tax and Boxing and Wrestling Fees). Revenue productivity and administrative characteristics were also considered in the review and analysis process.

Generally stated, an admissions and amusement transaction tax is a levy placed on fees for participant sports; admissions to events, movies, concerts, and plays (including dinner theaters); health, swimming, tennis and country club memberships; fees for other social and recreational, organizations; recreational lessons or instruction; and admissions fees or cover charges to night clubs, cabarets, bars with live music and other similar venues. The tax would be placed on the retail price of the transaction; it would be administered by the Nevada Department of Taxation.

The analysis undertaken applied a standard approach to estimating the fiscal productivity of an expanding or additional public revenue source. At the most summary level, the steps involved included: 1) estimate admissions and amusement spending/sales in Nevada; 2) obtain data on the revenue productivity of replaced revenue sources (e.g., Casino Entertainment Tax and Boxing and Wrestling Fees); and 3) estimate the rate that when applied to the estimated base of admissions and amusement spending/sales (Step 1) would generate the revenues currently produced by the replaced revenue sources (Step 2). Separate analyses were conducted from both the resident (spending) and business (gross receipts) standpoint. Visitors' contributions were also considered.

Total taxable admissions and amusement spending is Nevada is estimated to be nearly $1.82 billion annually. If such a transaction tax were to take the place of the existing Casino Entertainment Tax and Boxing and Wrestling Fees (to avoid double taxation) a tax rate of approximately 3.7 percent would be required to offset "lost" revenue ($67 million). The cited productivity figures are the result of a number of independent analyses, which were combined for reporting purposes and are summarized in this executive summary. These analyses, and the data underlying them, had a number of material limitations. A more complete treatment of these limitations is provided in the full report, which interested readers are encouraged to review. [1]

In addition to a quantitative assessment, the NTA also evaluated the potential for an admissions and amusement tax from a qualitative perspective. Chief among these considerations was that of expenditure regressivity. Annual expenditure data for high and low-income household groups were evaluated. The results of this analysis indicated that consumer spending on fees and admissions tended to increase with wealth, and were among the most progressive of all consumer expenditure categories. Also notable was the fact that tourists and other non-resident consumers would likely bear significant portion of the overall tax burden.

[1] Will be available after July 17, 2002

ADMISSIONS AND AMUSEMENT TAX ANALYSIS WHITE PAPER EXECUTIVE SUMMARY

CHARACTERISTICS SUMMARY FOR ANALYZED ADMISSIONS AND AMUSEMENT TAX

Title of the Tax:	**Admissions and Amusement Tax**
Law:	None. Tax does not currently exist.[1]
Basis of the Tax:	Fees for participant sports; admissions to events, movies, concerts, and plays (including dinner theaters); health, swimming, tennis and country club memberships; fees for other social, recreational, and fraternal organizations; recreational lessons or instruction; and admissions charges to night clubs, cabarets, bars with live music and other similar venues.
Procedure:	Transaction tax is added to the retail price of the admission or amusement payment.
Rate:	3.7 percent of retail price.
Distribution:	State General Fund
Collection:	Nevada Department of Taxation
Exemptions:	Tickets sold by or to non-profit groups as recognized by the Department of Taxation under the authority of NRS 372. The rental of a facility by a non-profit or educational organization to a for-profit or commercial entity does not exempt the collection of the tax by the for-profit or commercial entity.
Contact	Nevada Department of Taxation, 1550 East College Parkway, Carson City, Nevada 89706-7921
Yield:	$67,000,000

[1] Tax would be generally controlled by Nevada Revised Statute 360.

APPROXIMATE TIME AND REVENUE EXPECTATIONS OF PROPOSALS SUBMITTED

Please Note: The following information is approximate and should be confirmed with the Department of Taxation and as applicable with the Secretary of State's office. It has been developed from information provided during various public meetings of both the Department and Legislative committee meetings in addition to specific research conducted for the Association.

PROPOSAL	LAW CHANGE	TIME FRAME	REVENUE	MISCELLANEOUS
Business License - Annual & Renewal Fee (see page 5, # 1)	Yes Statutory	1/1/04	$25.= $2.4 million	Time required to develop forms and set up computer program
Business License - Clarification of Conflict (see page 5, # 2)	Yes Statutory	7/1/03	Unknown	
Business License - Increase Rate (see page 5, #3)	Yes Statutory	10/1/03	Each $1.00 = $770,000	Time required to change forms and provide notification
Sec'y of State Fees for profit (see page 5, # 4)	Yes Statutory	10/1/03	$25 = $5 million	Time required to change forms and provide notification
Sec'y of State Fees non-profit (see page 5, # 5)	Yes Statutory	10/1/03	To be determined	Time required to change forms and provide notification
Sales & Use Tax Clarification of collection allowance (see page 1, #3)	AGO issued July, 2001	Depends on solving computer problems	Depends on Use tax being paid. Range from $2.5 to $7 million	AGO was issued as to when collection allowance is permitted on the remission of Use Tax. No implementation at this time because current computer program cannot support change.
Sales & Use Tax Reduce collection allowance ¼ percent (see page 1, # 6)	Yes Statutory	10/1/03	Approximately $6 million	Time required to change forms and provide notification. Please note that when the Clarification of the collection amount is put into effect, the amount recognized from the reduction of the allowance will diminish.
Sales & Use Tax Payment Period (see page 1, #7)	Yes Statutory	10/1/03	Additional interest income	Time required to change forms and provide notification.
Sales & Use Tax Limited Base Expansion (see page 6, # 6)	Voter Approval Nov. 2004	1/1/05 if approved by the voters	Depends on degree of the expansion	As it is believed that a corresponding rate reduction is needed, depending on what component would have the rate reduction would ultimately determine the net benefit to the State.
Property Tax Increase cap of $3.64 per $100 of assessed value (see page 6, # 7)	Yes Statutory	7/1/03 or upon P & A	No Revenue	Without an increase in the cap an operating rate for the State or increase in the operating rate for K-12 would not be possible.

PROPOSAL	LAW CHANGE	TIME FRAME	REVENUE	MISCELLANEOUS
Property Tax Operating Rate for State and/or schools (see page 6, # 7)	Yes Statutory	7/1/03	Each 1¢ = $5.8 million dollars (FY 2003 Assessed Value)	So long as the rate is determined by the time the property tax rates are certified - June 25, 2003, the increase would appear on the property tax bills sent out July of 2003.
Transaction Tax (see page 6, # 8)	Yes Statutory	7/1/04	Each 1/4 percent in the mid range scenario generates $4,550,000 (See page 21 of *Analysis White Paper*)	While it might be possible to "shave" some time off the implementation date there are numerous items to be addressed from rule making to the development of forms and the identification and notification of those businesses that would be subject to the tax.
Lottery (see page 6, # 9)	Yes Constitut-ional Change	If voters approve 7/1/07	Unknown	If the voters approve at the general election of November 2006, it would probably take at least 6 months to set up the necessary mechanisms and procedures.
Yucca Mountain funds and shipper fee (see page 6, # 10)	Yes for shippers fees	At such time as the issue is resolved	Unknown	Obviously, this might not be a future option, but depending on the outcome some legislation would be required.
Net Proceeds Re-distribution	Yes Statutory	suggested 7/1/05	Reduction to State General Fund in proportion to revenue received and time frame for change	Using of the July 2005 starting time frame would allow the 2005 Legislature to determine if this was still a diminishing revenue source and should be implemented.

APPENDIX B: ASSOCIATION INFORMATION

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BOARD OF DIRECTORS-2002