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After substantial discussion with our programmers and business process people, although it is possible to make an Income Tax work by January 1, 2004, it could not be accomplished without substantial risk and problems. Any quick implementation would have to be with simple calculations, without deductions or exemptions. Problems affecting implementation are: existing technology just isn't set up to handle the complexity or differences in this type of tax (ACES is set up for monthly or quarterly filing and not on 12 separate fiscal year filings); a timeframe of perhaps less than 6 months offers little in the way of flexibility for resolving complex issues that will crop up; our limited IT staff will be committed to other workload even considering that new additions to staff are planned; there are just huge numbers of filers in Nevada; the Department has limited expertise to be able to refer and speak to specific line numbers from the various IRS forms and to adequately relate the incomes for the different filings without additional time and referral to experts. No doubt the best way to implement would be to make it effective as of January 1, 2004 with first collections on January 1, 2005. This would allow new technology, and any treatment with respect to exemptions or deductions. Following are comments or concerns:

- Our latest IRS info shows 210,000 business filings for Nevada (substantially greater than we have reported earlier) for 2002; 27,000 partnerships, 58,000 corporations, 118,000 sole proprietorships. Using a threshold both complicates and helps implementation. It complicates it in that it becomes another deduction that would need to be checked. It simplifies it in that it would reduce the total workload. For early implementation purposes for other taxes, the Department was able to consider early implementation since there were only a few thousand accounts; here we are talking about tens of thousands of accounts.

- The Department has 4 programmers. If you implement any other (more than a couple) tax changes that are more than just rate changes or that are new, you saturate our programming capability. Additionally, these are the same programmers who must interface with the vendor/consultant for new Information Technology (although we have plans in our enhanced budget for more programmers).

- Businesses file as follows (to the best of our knowledge): Private Corp, Close Corp, Foreign Corp and LLC's file on their own fiscal year and then 3 ½ months after the end of their own fiscal year; Partnerships and Limited Partnerships would have to be taxed on net income at the partnership level from a line on form 1065 before the carry forward to a person's personal income tax, they have their own fiscal year and file 3 ½ months after the end; Business Trusts have a line for net income, own fiscal year, 3 ½ months; Professional Associations (C Corp) same as others; Sole Proprietors file on a Schedule C, E (rentals) or F (farms), fiscal year coincides with calendar year, are given 4 ½ months (April 15) to file.

- The Department really needs to have some other outside Federal IRS expertise to be fully aware of methodology and procedures that would need to be considered.

- There may be a problem with income earned by companies operating interstate or international. No doubt these companies report and pay income tax in other states so the issue of nexus, apportionment and allocation would have to be tackled. Shells of companies would have to be considered; they file with the Secretary of State and file their income tax in Nevada and do very little business in Nevada. Likewise, for any business category that is "exempt" such as gaming, or mining, how do you treat income taxed in the exempt category but not in other categories?

- To implement on January 1, 2004 the earned net income used for reporting purposes would have to be retroactive from the period September 1, 2002 to August 31, 2003. Retroactivity is a legal issue that must be addressed. Language similar to the following would be needed, "Effective January 1, 2004, each business is required to file an income tax return every 12 months, based upon the same due date as is required for the business for Federal IRS filing purposes."

- In practice in order to implement effective January 1, the Department would need a system established to send out returns as soon as December 03, with completion and return due before the end of January 04. A notification procedure would need to be established consistent with the Taxpayers Bill of Rights, advising "all" eligible businesses of a requirement to file. Each month follows similarly. IRS filings are due no later than the 15<sup>th</sup> of each month either the 3 ½ months or 4 ½ months after the "end" of their year. Our mailings would need to coincide with each IRS businesses filing and accounting requirements.

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-After collecting the returns we would then have to establish a process for submission and accounting. ACES does not have a current capability to implement a system for assessing penalty and interest. There is a possibility to program this at a future date.

-Our Information Technology staff would have to manage the current parallel system for existing taxes, would have to build capability for any new taxes; and, would have to provide integration and interface for new proposed technology. With provisions for new technology a better option is for new technology that could be brought on-line January 1, 2005. With this new technology in place we could implementation a Business Income Tax with any exemption or deduction contemplated.

After careful consideration and consultation with Department staff, such an undertaking is truly more than just a "big" job; it is a job that comes with substantial risk, added to by the short time period for implementation, the state of technology and a still large number of unknowns.

Questions or comments, Chuck Chinnock, 687-4839