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Business And Taxes

A Tax on Services

Business Representatives Group

April 24, 2003

ASSEMBLY COMMITTEE ON TAXATION
DATE: 4/24/03 ROOM: 4100 EXHIBIT C
SUBMITTED BY: MARK DAIGLE

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The Process

- About a dozen meetings
- 40 people average
- 3-4 hours each
- 10's of thousands of business people & companies represented
- Sole proprietors to largest companies
- Every part of private sector

The Process

- Need identified at FIRST meeting
- Agreement on fundamental changes
- After 2nd meeting, "No Tax" option off the table
- Thousands of man hours invested
- NO PERFECT TAX
- Preservation of PROSPERITY and ECONOMIC GROWTH & DIVERSIFICATION essential

The Principles

- No single industry targeted
- Focus on taxes paid by business
- Avoid Regressivity
- Successful areas have diverse economies (Carson City, Elko, Las Vegas)

The Tax Policy

- Tax systems should reflect the economy
- Taxes should be VISIBLE and VOLUNTARY whenever possible
- Agreement broad, reflecting the group
- Invest in Education

Educational Accountability

- Chapter 288-separate classroom resource money from collective bargaining pool
- Prioritize spending
  - Pay differentials for subject areas with teacher shortages and at-risk schools
  - Technology
    - Teacher training
    - Maximize exposure of best teachers to more students

Educational Accountability

- Additional school days and instructional time
- Establish process involving teachers to develop enhanced compensation system
  - Next biennium for 2005 Legislature
  - Adopt in 2005
  - Implement by 2007

The Process

- Revenue need a moving target
  - $120 million to $359 million
- Changing numbers made our challenge harder
- Doubts on
  - Spending
  - Revenue Projections
  - Programs
  - Government Growth

The Process

- Examined over 35 taxes including
  - Transaction tax on services
  - Gross receipts tax
  - Payroll tax
  - Property tax increase
  - Business income tax
  - BLT increase

The Tax Policy

- Start by reducing volatility of revenue from
  - Sales and Use Tax (SUT)
  - Gaming Taxes

The Tax Policy

- Avoid sticker shock
- Create good tax policy
  - Benefits business
  - Benefits government
  - Benefits citizens
- Politically acceptable

We Support

- Transaction Tax on Services that Businesses and the Affluent Consume
- Business License Tax
- Secretary of State Fees
- Passive Revenue Measures
- Fiscally Sound Budget Practices
- Accountability and Performance Measurements

Tax on Services

ACR 1 Considerations

ACR 1 Considerations

"The development of a broad-based tax structure that is reflective of the diversity of Nevada's economy is a desirable policy..."

ACR 1 Considerations

- Identified a tax on sales or services for specific review

- Charged the Task Force to
  - "consider ways to reduce budgetary reliance on volatile or cyclical revenue streams."
  - "consider the desirability of lowering the state's sales and use taxes over time as new tax revenues become available"

ACR 1 Considerations

- Charged the Task Force to
  - "develop one or more definitive proposals to carry out the state's need to provide additional revenue for state programs, to stabilize the tax base and to reduce the long-term structural deficit of the state budget."

Tax on Services

- Taxes the larger, growing portion of the economy providing
  - Stability of revenue
  - Breadth of tax base
  - Growth of tax base and tax revenue that matches economy and population
  - Predictability of revenue
  - Insulation from internet leakage

Tax on Services

- Design can reduce pyramiding by exempting items for resale
- Honest and transparent
  - Clearly stated on the bill
  - Allows businesses to make informed purchasing choices

Tax on Services

- Implementation as soon as January 1, 2004 (?)
  - Collection infrastructure already exists

- BRG recommends 5% (4.25% in our rural counties) on all taxable goods and services to maximize rate reduction on SUT.

Tax on Services

- Exemptions can include the services most households typically purchase
- $56 billion service tax base is larger than $37 billion sales tax on products base
- Still provide hundreds of millions of dollars of new revenue
- Use tax on services provided from out-of-state

Tax on Services at 5%

- $400-500 million in new revenue annually
  - Educational or other enhancements or tax relief in other areas
- Tax Relief from Product Sales Tax
- Economic Stimulus --- Business Attraction
  - Rate lower than surrounding states provides an incentive for purchases of goods, capital investment and location of businesses in Nevada

Sales Tax Rates for Large Cities in Neighboring States

City	Sales Tax Rate
Los Angeles	8.25%
San Diego	7.75%
Orange County	7.75%
Phoenix	7.50%
Sacramento	7.75%
Salt Lake City	6.60%
Boise	5.00%

Tax on Services

- Design so that businesses and higher income individuals will pay the bulk of the tax

- Businesses are major users and purchasers of outside services

Taxable Services Primarily Consumed by Business

- Accounting, Auditing Bookkeeping
- Air Transportation (non-commercial)
- Armored Car, Detective and Protective Services
- Automobile Parking
- Banking
- Book Printing, Publishing, Bookbinding
- Business Associations
- Commercial Laundry & Cleaning
- Commercial Printing
- Computer Programming, Data Processing, Services, Repairs & Rental Credit Agencies
- Electrical Service & Repair
- Engineering & Architectural
- Equipment Rental & Leasing
- Janitorial Services
- Landscape Maintenance
- Legal Services
- Lobbying Services
- Mailing, Reproduction, Commercial Art & Photography

Taxable Services Primarily Consumed by Business

- Stenographic Services
- Maintenance of Oil & Gas Wells
- Maintenance & Repair, Other Facilities
- Management & Consulting Services
- Miscellaneous Publishing
- Miscellaneous Repair Shops
- Motor Freight Transport & Warehousing
- Other Services to Buildings
- Personnel Supply Agencies & Employment Agencies
- Photofinishing
- Photography, Commercial
- Pipelines, except Natural Gas
- Railroads & Related Services
- Real Estate
- Research, Development & Testing Services
- Sanitary Services
- Securities & Commodities Brokers
- Security Systems & Services
- Transportation Services
- Typesetting
- Vault Services

Taxable Services used by the Affluent

- Accounting
- Air Transportation (non commercial)
- Arrangement of Passenger Transportation
- Banking (private banking, trusts, etc)
- Detective & Protective Services
- Golf & Country Club Memberships
- Interior Decorating
- Jewelry & Furniture Repair
- Legal Services
- Securities & Commodities Brokers
- Transportation Services

Taxable Discretionary Services

These services are non-essential to Nevada families. The decision to use them (or not) is the consumer's.

- Adult cabarets
- Brothels
- Car Wash
- Commercial Sports except Racing
- Landscape Maintenance
- Local, Interurban Passenger Transit
- Membership Sports & Recreation Clubs
- Transportation Services
- Water Transportation

Non-Taxable Consumer Services

Services used by average Nevadans that, if taxed, would result in a regressive tax structure, unfairly burdening lower and middle income families.

- Amusement & recreation
  - Bowling
  - Pool halls
  - Movies
  - Theater Productions & Bands
  - Newspapers & Magazines
- Personal Services
  - Beauty & Barber Shops
  - Manicures & Facials
  - Funeral Services
  - Personal Laundry
  - Cleaning
  - Shoe Repair
  - Portrait & Photo Studios
  - Weddings

Non-Taxable Consumer Services

Services used by average Nevadans that, if taxed, would result in a regressive tax structure, unfairly burdening lower and middle income families.

- Child & Residential Care
- Healthcare
  - Doctors
  - Dentists
  - Prescription Drugs
  - Nursing
  - Hospital Care
  - Personal Care
  - Other Health Services
- Utilities
  - Phone Service
  - Electricity
  - Natural Gas
  - Sewage & Water Supply

Non-Taxable Consumer Services

Services used by average Nevadans that, if taxed, would result in a regressive tax structure, unfairly burdening lower and middle income families.

- Residential
  - New Home Construction
  - Home Repair & Maintenance
  - New Landscaping
  - Watch & Clock Repair

- Educational Services
  - After-school Tutoring
  - Learning Centers
  - College Prep Courses
  - Technical & Computer Schools

Non-Taxable Consumer Services

Services used by average Nevadans that, if taxed, would result in a regressive tax structure, unfairly burdening lower and middle income families.

- Repair Services
  - Automobile
  - Residential Maintenance & Repair
    - Plumber
    - Electrician
    - Appliance Repairman
  - Apparel & Tailors
- Veterinary Services
  - Pet Care

Non-Taxable Services: Economic Stimulants

Services used by the business community to increase economic growth, business revenue & create new jobs.

- **Job Training & Related Services**
- **Advertising**
  - Print
  - Broadcast
- **Communications**

Non-Taxable Services: Manufacturing & Goods Production

Services that, if taxed, would create a pyramid effect which taxes these more than once and drives up the cost of goods

- Agriculture, Forestry & Fishery Services
- Construction
  - New industrial & commercial buildings
  - New landscaping
  - New mineral extraction facilities
  - New residential structures
  - New utility structures
- Gas & Oil Production & Distribution

Non-Taxable Services: Government Related Services

Includes services used and paid for by state and local governments, probably exempted.

- Government construction
  - Highways & local roads
  - Government buildings
  - New Schools
- Outsourced services used by Government

Previously Taxed Services

Proposed to be exempt to avoid double taxation

- Insurance
- Video Rentals
- Gaming
- Rental Cars
- Mining & Mineral Extraction Services

Nevada Annual Average Household Expenditures

(Services Taxed with Exemptions)

GOODS		SERVICES	
Food		**Food**	
Food Away From Home	$ 1,957.65		
Household		**Household**	
Household Furnishing	$ 1,563.37	House Maintenance, repairs, insurance	*Exempt*
Housekeeping Supplies	$ 468.15	Household Personal Services	*Exempt*
Misc. Household Equipment	$ 767.08		
Apparel		**Apparel**	
Apparel	$ 1,320.28	Apparel Services	*Exempt*
Vehicles		**Vehicles**	
Vehicles	$ 2,731.60		
Vehicle Maintenance (Parts & Repairs)*	$ 347.47	Vehicle Maintenance (Parts & Repairs)*	*Exempt*
Personal Care		**Personal Care**	
Personal Care Products and Services *	$ 205.73	Personal Care Products and Services *	*Exempt*
Entertainment		**Entertainment**	
TVs, Radios, Sound Equipment	$ 541.17	Entertainment Fees and Admissions	*Exempt*
Pets, Toys and Playground Equipment	$ 316.11		
Reading	$ 160.63		
Other Entertainment Supplies and Services*	$ 263.71	Other Entertainment Supplies and Services*	*Exempt*
Miscellaneous*	$ 477.17	**Miscellaneous***	*Exempt*
Multiply Total by 7.25%	$11,120.12		
Current Tax rate	$ 806.21		
Multiply Total by 5%	$11,120.12		
New Tax Rate	$ 556.01		
Savings in Taxes	$ 250.20		
Total Savings Per Household	**$250.20**	***New Taxes***	**$0.00**

The Average Nevada Household Will Save Money and Benefit from a Reduction in the Sales Tax on Products.

- *Denotes a 50%-50% split between Goods and Services
- Food for Home Consumption, Mortgage and Rent, and Motor Fuel are not included, because they are not currently taxed under the sales tax rate.

Data based on the United States Bureau of Labor Statistics Spending Survey, 2000. Nevada data was factored by the Governor's Task Force on Tax Policy.

Nevada Annual Average Household Expenditures

(All Services Taxed)

GOODS		SERVICES	
Food		**Food**	
Food Away From Home	$ 1,957.65		
Household		**Household**	
Household Furnishing	$ 1,563.37	House Maintenance, repairs, insurance	$ 822.06
Housekeeping Supplies	$ 468.15	Household Personal Services	$ 311.81
Misc. Household Equipment	$ 767.08		
Apparel		**Apparel**	
Apparel	$ 1,320.28	Apparel Services	$ 311.81
Vehicles		**Vehicles**	
Vehicles	$ 2,731.60		
Vehicle Maintenance (Parts & Repairs)*	$ 347.47	Vehicle Maintenance (Parts & Repairs)*	$ 347.47
Personal Care		**Personal Care**	
Personal Care Products and Services *	$ 205.73	Personal Care Products and Services *	$ 205.73
Entertainment		**Entertainment**	
TVs, Radios, Sound Equipment	$ 541.17	Entertainment Fees and Admissions	$ 476.74
Pets, Toys and Playground Equipment	$ 316.11		
Reading	$ 160.63		
Other Entertainment Supplies and Services*	$ 263.71	Other Entertainment Supplies and Services*	$ 263.71
Miscellaneous*	$ 477.17	**Miscellaneous***	$ 477.17
Multiply Total by 7.25%	$11,120.12	**Multiply by 5%**	$ 3,216.50
Current Tax rate	**$ 806.21**	***New Taxes***	**$ 160.83**
Multiply Total by 5%	$11,120.12		
New Tax Rate	**$ 556.01**		
Savings in Taxes	**$ 250.20**		
New Taxes	**($ 160.83)**		
Total Savings per Household	**$89.37**		

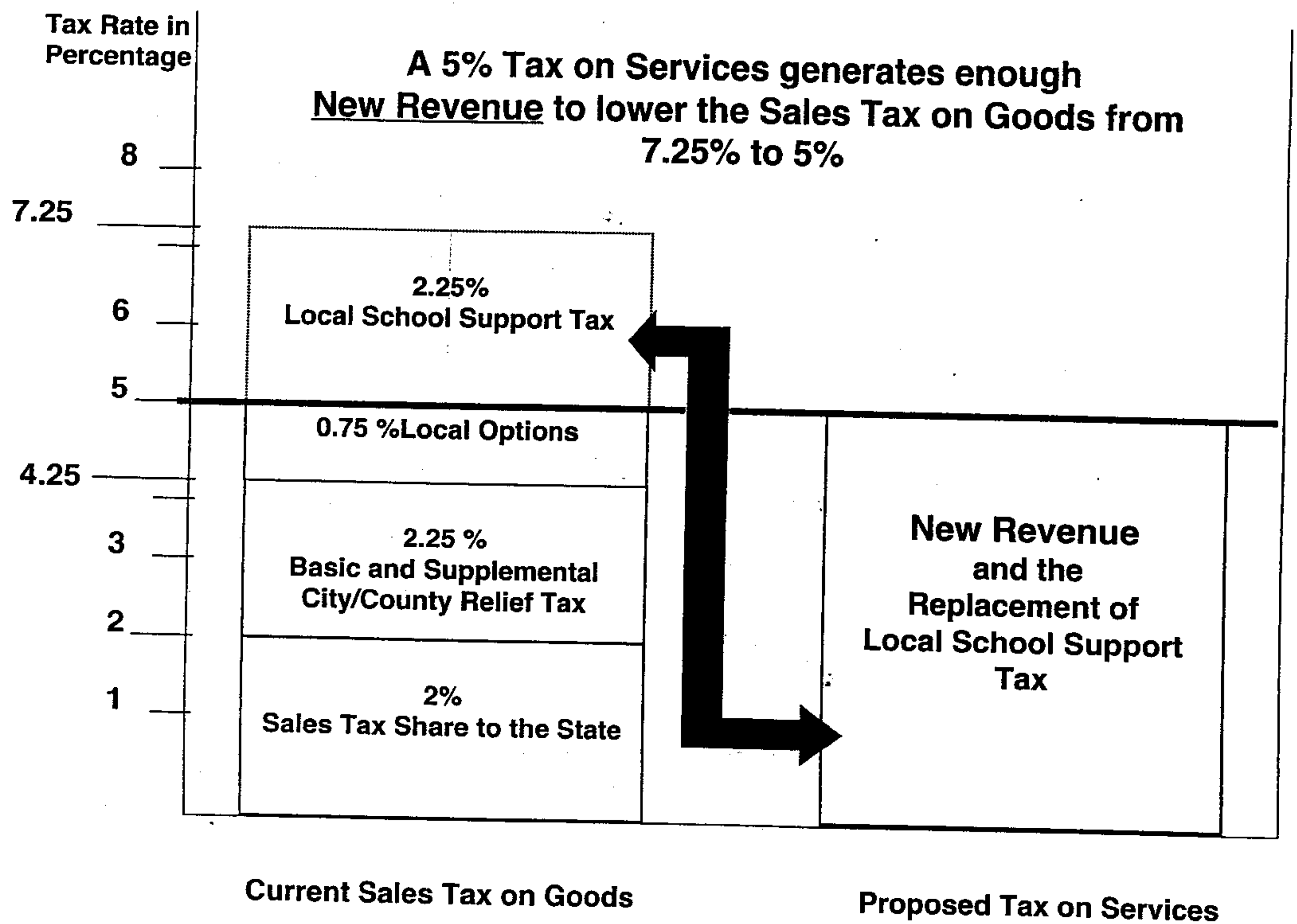
*Denotes a 50%-50% split between Goods and Services

Note: Food for Home Consumption, Mortgage and Rent, and Motor Fuel are not included, because they are not currently taxed under the sales tax rate.

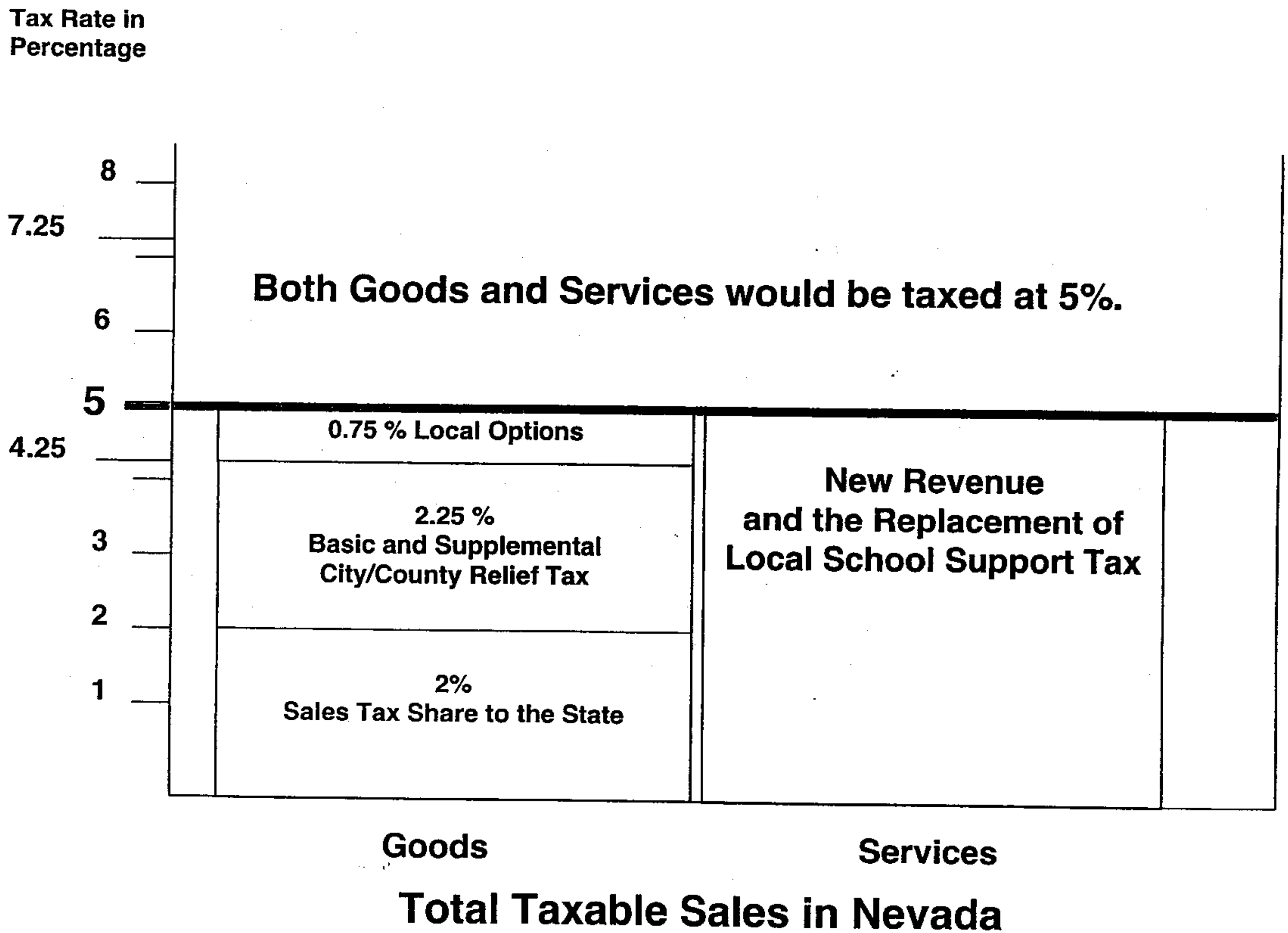
Data based on the United States Bureau of Labor Statistics Spending Survey, 2000. Nevada data was factored by the Governor's Task Force on Tax Policy.

The Proposed Tax on Services will

- Tax Services
  - Used mainly by businesses and those who can most afford to pay
  - Generate more revenue
    - than the Gross Receipts Tax (GRT)
  - Collect revenue at an earlier date
    - than the GRT
  - Allow a Reduction in the Sales Tax on Products



Tax Rate in Percentage
8
7.25
6
5
4.25
3
2
1
A 5% Tax on Services generates enough New Revenue to lower the Sales Tax on Goods from 7.25% to 5%
2.25% Local School Support Tax
0.75 %Local Options
2.25 % Basic and Supplemental City/County Relief Tax
2% Sales Tax Share to the State
New Revenue and the Replacement of Local School Support Tax
Current Sales Tax on Goods
Proposed Tax on Services


Tax Rate in
Percentage
8
7.25
6
5
4.25
3
2
1
Both Goods and Services would be taxed at 5%.
0.75 % Local Options
2.25 %
Basic and Supplemental
City/County Relief Tax
2%
Sales Tax Share to the State
New Revenue
and the Replacement of
Local School Support Tax
Goods
Services
Total Taxable Sales in Nevada

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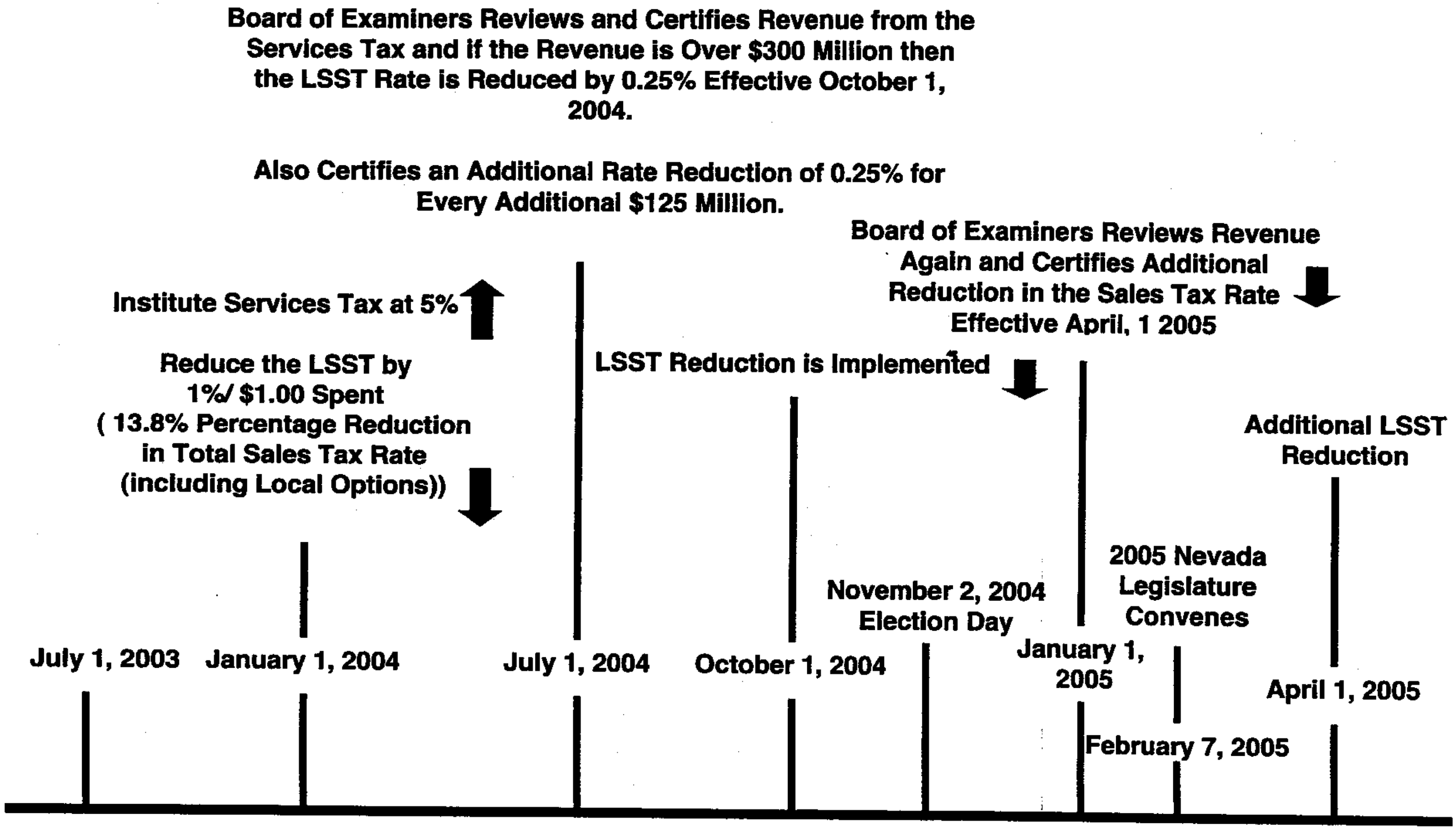

Timeline for Implementation of Proposed Service Tax – January 1, 2004

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Proposed Tax on Services-
SECOND ~~First~~ Half Year of Biennium

January 1, 2004 through June 30, 2004

5% x $25 Billion= $1.25 Billion Tax Revenue Annually
Adjusted for Half Year--Divide by 2 =
$600,000,000+

Reduced by Replacement of LSST 1% Implemented January 1, 2004	$180 Million
Available Tax Revenues	$420 Million

Proposed Tax on Services 2nd Year of Biennium

July 1, 2004 through June 30, 2005

5% x $25 Billion	=	$1.25 Billion
Replacement of LSST	=	$ 740 Million
Available New Tax Revenue	=	$485 Million