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Guy Hobbs Jeremy Aguero EXHIBIT C

The Governor's Task Force on Tax Policy

The State Activity Tax

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ASSEMBLY COMMITTEE ON TAXATION 23 pages
DATE: 5/1/03 ROOM: 3142 EXHIBIT C
SUBMITTED BY: Guy Hobbs, Jeremy Aguero

A.C.R. 1

- Identification of taxes to be reviewed
- Required development of one or more proposals to:
  - Carry out the state's need to provide additional revenue for state programs;
  - Stabilize the tax base; and
  - Reduce the long-term structural deficit of the state budget
- "[A]ny recommended legislation must include a plan to broaden the tax base so that it is reflective of the diversity of the state's economy…"

Revenue Alternatives

- Admiss. & amusement tax
- Business license tax
- Casino entertainment tax
- Cigarette tax
- Commercial lease tax
- Corporate income tax
- Estate tax
- Franchise fees
- Government services tax
- Gaming taxes
- Gross receipt taxes
- Inheritance tax
- Inventory tax
- Liquor tax
- Mining tax
- Margin taxes

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Revenue Alternatives

- Payroll tax
- Property tax
- Personal income tax
- Real property transfer tax
- Rental tax
- Retail sales and use tax
- Short-term car rental fees
- State lottery
- Slot route operators taxes and fees
- Value-added taxes

Three-Part Recommendation

- Part I
  - Efficiency measures
- Part II
  - Purchase-power adjustments
  - Near-term revenue considerations
- Part III
  - Revenue sufficiency
  - Reflecting the diversity of the state's economy
  - Long-term stability

The State Activity Tax
(Key Elements)

- ¼ of one percent (.0025) level imposed on the gross receipts of all business activity in Nevada

- $350,000 standard deduction
  - Increases tax equity
  - Exempts more than 50 percent of businesses

- Qualified Nevada employee tax credit
  - Creates an integrated levy
  - Balances the burden on labor intensive and capital intensive businesses

The State Activity Tax

- Reflects the diversity of Nevada's economy
- Among the most stable sources of public revenue available
- Captures out-of-state firms importing goods into Nevada and those employing national pricing strategies
- Relatively easy administration and compliance

The State Activity Tax

(Deductions, Credits, Exemptions , & Exclusions)

- Exemptions
  - Membership fees, dues or fundraising activities of not-for profits
  - Operating revenue of a public utility
  - Revenues upon which gross gaming tax is paid
- Deductions
  - Revenue constitutionally prohibited
  - State, local, federal fuel taxes

- Interest income on bonds
- Pass through revenue
- Dividends by a sub to a parent
- Cash discounts allowed to purchasers
- Bad debts
- Counterfeit currency
- Income from governmental sources received by hospitals
- Health/life insurance claims paid to a businesses

State Activity Tax

* * * *

Frequently Asked Questions

QUESTION

Section 8(1) of AB 281 reads, "Except as otherwise provided in this section, "gross receipts" means the gross amount received or receivable on the use, sale or exchange of property or capital or for the ***performance of services, from any transaction involving a business***..."

What are gross receipts?

And, does this mean that a cash basis taxpayer is required to pay tax on accounts receivable?

ANSWER

- Received or receivable covers all revenues potentially subject to the levy
  - Cash basis taxpayers are taxed when revenues are "collected"
  - Accrual basis taxpayers are taxed when revenues are "earned"
- Comports with election made for federal income tax reporting purposes

QUESTION

What factors led the Task Force to recommend a gross receipts tax as opposed to a net profits or a value added tax?

ANSWER

- Stability
- Predictability
- Ease of compliance
- Ease of administration
- Integration with existing tax system
- Uniform & broad based

QUESTION

Does a gross receipts tax reflect the ability to pay?

ANSWER

- Very few taxes actually reflect ability to pay
- Taxes which reflect ability to pay:
  - Personal income tax
  - Corporate income tax
- Taxes which do not reflect ability to pay:
  - Business license tax
  - Business license fees
  - Gross gaming tax
  - Property tax
  - Insurance premium tax
  - Payroll taxes
  - Sales tax

QUESTION

What is pyramiding? Is this a problem unique to a gross receipts tax?

ANSWER

- Pyramiding (or stacking) is what occurs when a tax is imposed on a tax
- Stacking occurs in many types of levies, including a sales tax on goods or services
- All taxes are considered when businesses set prices
- Compare: ¼% on ¼% to 5% on 5%

QUESTION

Did the Task Force consider how the gross receipts tax, or any tax for that matter, will impact economic development?

ANSWER

- Yes. The Task Force recognized the importance of economic development
- Many factors are considered in expansion or relocation decisions:
  - Education & workforce
  - Infrastructure
  - Proximity to major markets
  - Quality of life
  - Cost of operations (inc. comparatively low tax rates)
- The government's ability to provide a competitive environment is based upon its ability to provide for the above
- Broadness of tax base allows for lowest effective rate

QUESTION

How does the tax burden created by the gross receipt tax compare with the business taxes imposed in surrounding states?

ANSWER

- Corporate income taxes:
  - Arizona (6.968%)
  - California (8.84%)
  - Colorado (4.63%)
  - Idaho (7.6%)
  - Montana (6.75%)
  - New Mexico (4.8% to 7.6%)
  - Oregon (6.6%)
  - Utah (5.0%)
- National tax rankings

QUESTION

Can the gross receipts tax be deducted from a company's federal tax liability?

Answer

- Yes. Federal tax forms allow a deduction for "taxes and licenses" paid
- A significant share of the gross receipts tax paid to Nevada will be a direct offset to federal income tax liability

Question

Stability is often noted as a positive feature of the adjusted gross receipt tax. Why is this levy any more or less stable than other revenue sources the Task Force considered?

ANSWER

- Tax reflects the diversity of the state's economy
- Adapts automatically to changes in the state's economic make up
- Does not have the same vulnerabilities as a corporate income tax
- Has a broader base than even the most expansive sales & use tax

QUESTION

What is the significance of the business license tax deduction?

ANSWER

- All sizes of businesses participate
- Balances the tax across industries
- Reduces the overall tax burden
- Provides for an integrated program

QUESTION

Section 19 of AB 281 provides a deduction for "pass through revenue." What is pass through revenue?

ANSWER

- Revenue received in transactions in which the seller does not have an "ownership interest" in the item sold

- Such as:
  - Real estate agents
  - Trusts
  - Bank accounts
  - Travel agents

QUESTION

AB 281 provides an exclusion for revenues upon which gross gaming tax or slot tax is imposed. Why were these groups treated differently?

ANSWER

- Revenues subject to gross gaming tax were excluded because they are subject to an equal and accompanying increase in the gross gaming tax (recommended)
- Slot tax exclusion was a drafting error. This subsection should be removed.

QUESTION

I understand that there is a moratorium on the taxation of internet services. Does the gross receipts tax capture these businesses or are they exempt?

ANSWER

- The federal moratorium is limited to the provision of Internet services, not businesses providing Internet services
- The proposed levy captures businesses providing Internet services

QUESTION

How will the tax treat multistate businesses with operations in Nevada?

ANSWER

- Multistate business with a minimum physical presence in the state will be subject to the tax for the share of their business occurring in Nevada
- Allocation and apportionment formula created using UDIPTA standards as a guideline
- Special UDIPTA provisions are developed for interstate transportation and financial institutions

QUESTION

Will we need a "mini-IRS" in Nevada to administer the gross receipts tax?

ANSWER

- No, gross receipts taxes have among the lowest administrative costs of any levy considered

- While it will increase the burden on the Department of Taxation, to suggest that it will require an agency of the magnitude or structure similar to that of the IRS is dramatic overstatement