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State Assembly Taxation Committee Meeting
Dennis M. Sponer
Testimony
Thursday, May 1, 2003

Chairman Parks, members of the Committee, my name is Dennis M. Sponer from Las Vegas, Nevada. I am the President of ScripNet, Inc., a local pharmacy benefits management company. I am also a licensed attorney and have a Masters Degree in Tax Law from the University of San Diego School of Law.

I am opposed to the Gross Receipts Tax for two reasons: First, different businesses get to "keep" larger or smaller percentages of their gross receipts depending upon their industry; Second, the tax has a pyramid effect – the same revenue is taxed multiple times. I would like to walk you through how my company will be affected by this tax.

To give you a bit of background on my company, ScripNet processes prescription drug claims for property and casualty insurance companies throughout the country. I started the company in 1997 and in 2002, Inc. Magazine ranked my company the 34th fastest growing privately held company in the United States. Last week I was in Boston to receive an award on behalf of my company from the Initiative for a Competitive Inner City. Out of over 5,000 nominations, ScripNet ranked number 2 in the Inner City 100 and was the only company from Nevada. We employ 30 people in Las Vegas and will have revenues of approximately $18 million this year.

ScripNet sends prescription benefit cards to covered individuals who then present their ScripNet card to one of our network pharmacies. The pharmacy electronically bills ScripNet, ScripNet bills our client, the insurance company, the insurance company pays ScripNet and ScripNet pays the pharmacy.

Over 80% of ScripNet's Gross Receipts are paid immediately out to our contracted network pharmacies. Therein lies the rub with a Gross Receipts Tax.

For every dollar ScripNet is paid, we would pay 1/4 of one cent to the State. Last month, ScripNet was paid almost 1.5 million dollars by its customers. Almost all of that money came from outside the State of Nevada. Under the proposed tax, we would then pay $3,750 to the State of Nevada.

Our biggest concern with a Gross Receipts Tax is that it does not account for the fact that over 80% of that million and a half dollars we collected in April will be paid out to our Network Pharmacies. You see, even though we get to keep only $300,000 for overhead and operational expenses, we would pay tax on the full 1.5 million. The Gross Receipts Tax as proposed is equivalent to a 5% or more net income tax in our case. In 2001, it would have been equivalent to a 19% income tax.

Bill

We also feel that the definition of "Pass Through Revenue" in the proposed [redacted] is not well enough defined to alleviate our concerns and would probably not apply to my company's pharmacy costs of goods sold expense.

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SUBMITTED BY: DENNIS SPONER

The Gross Receipts Tax also does not take into account the profitability of a business. Out of that $300,000 monthly gross margin, we pay the salaries of our employees, the rent, the utilities, make an allowance for bad debt and pay for all of the other things that go into running a business.

In the end, we hope to make a profit. However, some businesses that are paid a million and a half dollars in a month get to keep a larger or smaller percentage of that million and a half dollars than others. For example, our $300,000 in gross margin is equivalent to, say, a law firm with a $300,000 monthly gross revenue. We feel that a tax on **profits** is more equitable.

The Gross Receipts Tax is also harder on start up companies than on established ones. Indeed, in all but the first year we were in business, our gross receipts exceeded the proposed $450,000 minimum. This, despite the fact that we lost money in two of our first four years in business. For example, in 1999, our third year in business, we lost over $47,000 on $513,875 in gross receipts. In 2000, we lost over $78,000 on 2.3 million dollars in gross receipts. If forced to pay a tax in 2000, our net loss would have increased by almost $5,000. In ScripNet's case, it has taken us years to get into a position to start to earn a consistent profit. The Gross Receipts Tax hits a business from day one - whether or not it is turning a profit.

We believe that entrepreneurship and economic diversification are important to Nevada. A Gross Receipts tax would stifle those goals.

Finally, we believe that the Gross Receipts Tax is unfair because of its pyramiding effect. In ScripNet's case, our Network Pharmacies in Nevada would have to again pay tax on the money we pay them. For example, if we pay tax on the 1.5 million dollars we are paid this month, then pay $1.2 million to our Network Pharmacies, the Pharmacies must pay tax on that $1.2 million **again**. And if the Pharmacies pay, say, one million dollars to their Drug Wholesalers, the Wholesalers would have to pay tax on the payment from the Pharmacy **again**. And if out of that million dollars, the Wholesalers had to pay, say, $900,000 to the actual Manufacturers of the drugs, the Manufacturers would have to pay tax on the payment from the Wholesalers **again**. In this example, the total gross receipts tax would be $11,500 on the $1.5 million.

In the end, we believe that the Gross Receipts Tax is unfair. Is $44,000 a year unduly burdensome to my company? Probably not. But it's the equivalent of one employee's salary. And it certainly would have been burdensome when we were just starting out.

This new tax increase will lead to the loss of existing and new investments in our state which means fewer job opportunities. Those businesses that cannot afford this tax increase will eliminate some jobs and those who do stay afloat will trickle this increase down to the consumer into higher prices for goods and services.

I own a company that will be grossly effected by this Gross Receipt Tax and am concerned for my company, as well as the well being of our employees.

As a business owner and a concerned Nevadan, I am opposed to the Gross Receipts Tax and am asking you to explore other, more equitable methods to raise needed revenue.

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