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## **The Business Coalition Comments on SB 238**

Parts of this you will have heard before whether through direct conversations with some of us, through the media or in prior comments before this committee.

The Business Representatives Group had initial discussions about meeting or commitments on new tax ideas prior to 9-11, but that event disrupted everyone's schedule. We convened the first of about a dozen meetings in late 2001. The meetings averaged about 40 and about 3-4 hours each with people representing some 72,000 business people and companies. They range from individual real estate agents and sole proprietors to the largest private companies in the state in nearly every part of the private sector. There is possibly a sector missed, but we don't know of anyone.

Some representatives spent many hours in addition to the meetings above either working with their members or working with various subgroups on specific task. We have some overlapping membership, but frankly we don't know how large that issue is among the various groups. We believe the various organizations represent the vast majority of the private sector employees in the state. The combined time invested in this issue is thousands of man-hours. After perhaps the second meeting, there was literally no discussion that the tax structure of the state wasn't in need of change or that a 'no tax' stance was reasonable.

The group spent considerable time looking at possible tax ideas that exist around the country in various forms and how those might possibly work in Nevada. The obvious conclusion is that there is NO PERFECT TAX. If one existed, every state would use it. Nevada has generally a good business climate, but there was broad consensus that preserving the Prosperity of the private sector is essential to the growth of the state.

We setup simple important rules. We agreed to we would NOT recommend any industry specific tax increases or new taxes. We agreed that we would focus on taxes that are primarily paid by businesses rather than taxes that we collect that are generally paid by consumers, such as alcohol and cigarette taxes. We didn't include those suggested taxes, but used the Task Force numbers.

This state perhaps more than any other should understand that a lack of private sector Prosperity created many of the ghost towns scatter throughout Nevada. One industry or another may dominate the cities and towns that have survived, but they have survived because they developed some level of diversity in the economy and usually were helped by location and resources. Some towns are mining dominated, but still have a gaming/tourism, retailing and ranching component such as in Elko. In Carson City there is strong manufacturing and retailing sectors in addition to the government sector as the state capitol. Las Vegas is dominated by the gaming/tourism, but the retailing, construction, services and other sectors are essential to the viability of the city. Henderson

and North Las Vegas benefit from the tourism base, but their economies are a little different. Unionville, Delamar, Midas and Cherry Creek failed to develop a viable broad-based Prosperous private sector and they are essentially gone. We have communities in Nevada today that are 'at risk'. A tax policy that knowingly puts small or start up businesses at risk will increase the cost of government because we are probably unwilling to knowingly close communities that lose viability.

The group did NOT reach consensus on every tax idea proposed; nor did we expect to do so. It is amazing how much agreement we reached considering the breadth of the group and variety of those represented. In some cases, we agreed on what needed to be done, but not on the details of how to get there. Meanwhile, the target revenue numbers changed frequently. The ever-changing number damaged the creditability of the government in every respect with many we represent. Some doubt the spending needs, the revenue projections, the need for various programs and the growth of government during a recession in most private industry sectors in Nevada and the rest of the country. Many are unwilling to anti-up for large increases without serious reform in government spending, expenditures, accountability and performance.

Many ideas from fundamental review are NOT implemented or even started. LCB audits show the same problems in audit after audit without correction or real resolution. Education spending is way up, but performance has not increased to match the increased investment. Government seems unable or unwilling to end or privatize programs that don't work or can be turned over to the private sector. Government is the overhead function of society and the private sector drives the prosperity of the entire society. If the overhead function of ANY company is unrestrained, the company is doomed to failure or at least tough times. We are deeply concerned that the overhead function of society - government needs serious constraints at ALL levels.

I believe that the majority of the group believes that serious changes and improvements in government are an essential part of ANY TAX INCREASES OR NEW TAXES. Part of any deal for new money should include serious changes in performance, accountability and responsibility.

## **TAX POLICY**

Last week you heard for Knight Allen with his reminder on the tax principles espoused by Adam Smith nearly 230 years ago. Among those is that the tax systems should reflect the economy as much as possible and be voluntary whenever possible. Those are important to remember.

The governor talked about the need to stabilize revenue sources and cited that as a primary reason for his support of the GRT. The GRT may be stable in the

short run, but over time it will tend to discourage new businesses and will destroy many businesses during times of stress. The stress mentioned can be from recessions such as this one or from natural or man-made disasters. If Nevada had a GRT in place, how many of the businesses flooded in Reno and Sparks during the New Years flood a few years ago would have failed to recover? We have floods, fires and earthquakes in Nevada. While we understand the Governor's call for increased stability in tax revenues, we are firmly convince that the place to start is to reduce the volatility of our existing SUT and Gaming taxes.

The gaming tax probably needs to be re-thought to be a higher rate, but include significant deductions for their operation expenses. In the late 1940's the Gross Gaming tax may have been a viable option for an exclusive sector, but even this tax should be reviewed in light of the current climate, corporate gaming and the global gaming market. At least some of us think the entire industry would benefit as well as the state from the review of this tax structure. The gaming industry should be an integral part of any effort to review and change the gaming tax.

The sales and use tax (SUT) should be expanded to cover services since services are now about 60% of our economy and they are the growing sector. Many services are primarily purchased by businesses or by the wealthy residents with discretionary spending dollars. We are convinced that a wisely constructed sales and use tax expansion to services will allow for a lower overall rate on the product sales tax and lower the burden on the lower SES portions of our population. The potential revenue from the service side is so large that you can reduce the rate or create exemptions as needs to improve the acceptability of this tax expansion. We think this could be structured to create timely rate reductions as we begin to see the magnitude of the new revenue. Further that could be matched to spending reductions that will take time to implement. It will broaden the base and make the tax reflect the Nevada economy.

Our existing SUT has among the narrowest base among those states with a SUT. We clearly need to re-visit each exemption and exception to the SUT and eliminate those that no longer make good sense (reference Senator Neal's SB 291). We may not agree that all items in Senator Neal's bill should be changed, but agree with the need to review those to broaden the based and add stability.

You heard from Carole last week about the need to avoid sticker shock with huge increases or significant new taxes, that may result in lower than expected revenue as people or businesses change their purchasing habits. We urge you to look at steps to create a good tax policy that will have long-term positive impacts on government while maintaining a good business environment. A good tax policy will continue the Nevada miracle. We believe it can be done in ways to be politically acceptable to the vast majority of Nevada citizens and voters.