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Testimony before the Senate Taxation Committee
March 18, 2003
Senate Bill 238

Mr. Chairman and members of the Senate Taxation Committee, I am Kara Kelley, President of the Las Vegas Chamber of Commerce. I speak today to record the Chamber's opposition to the proposed Gross Receipts Tax. The Chamber does not make this statement lightly. We came to this position only after many months of deliberation, not only as members of the business representatives but internally as well.

Fundamentally, the Gross Receipts Tax is an unfair tax in that it impacts companies differently, depending on how their industries are structured. Companies in industries with low margins and high volumes (ex. Grocery stores, wholesalers, convenience stores, gas stations, etc.) will pay a higher proportion of their income in taxes than will companies in industries with comparatively higher margins and low volumes. A fair tax impacts all companies and industries in a similar manner, rather than providing some with a distinct disadvantage in the marketplace.

Just as importantly, we oppose the Gross Receipts Tax out of concern for Nevada's small businesses. Nearly 6,000 of our members have less

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than 25 employees. And although this may, in fact, preclude many in this group from having to pay this tax today, we are profoundly disturbed by the likelihood that the current exemption will decrease over time and the rate will inevitably rise. Essentially, the Las Vegas Chamber of Commerce believes that it is fighting for the FUTURE of small businesses in its opposition today, as this and subsequent legislatures react to the need or desire for additional tax revenue.

Some other points for your consideration:

- The Gross Receipts Tax pyramids through the production and distribution chain, so that the same revenue can be taxed several times, resulting in an actual tax on the final product of several times the initial GRT rate.
- This tax unfairly penalizes start-up companies who may take several years to show a profit, yet must pay Gross Receipts Tax on their revenues during this entire period. In many industries, start-ups have revenue that greatly exceeds the \$450,000 exemption level.
- In low margin industries, when the cost of goods rises because of outside economic forces, then revenue is increased to cover the higher cost of goods. All while margins remain constant, but the taxes paid increase because the same tax rate is multiplied by much higher revenue. After-tax profit then declines, only because the

Gross Receipts Tax is imposed on revenue. As a company increases sales to raise cash to pay its tax bill, whether selling at a profit or not, its tax bill rises, since the tax is a percentage of revenue.

- The Gross Receipts Tax is paid at the same rate, regardless of profitability, margin size, or ability to pay.
- The Gross Receipts Tax is potentially detrimental to Nevada's economic growth and diversification. It is perceived as unfair and discriminatory to whole classes of industries. In addition, the uncertainty associated with its implementation, especially in allocating revenue among states, ~~deters companies from locating or~~ expanding in Nevada.
- The Gross Receipts Tax pyramids through the production and distribution chain, so that the same revenue can be taxed several times, resulting in an actual tax on the final product of several times the initial Gross Receipts Tax rate.
- Companies in commodity industries with very small margins cannot pass the Gross Receipts Tax through to the customer.

Thus, they could pay as much as 25-50 percent of their pre-tax profits in taxes, depending on their margins.

- For those industries that can pass the tax through to the consumer, the Gross Receipts Tax constitutes a stealth increase in the sales tax and a stealth expansion to currently untaxed, regressive spending categories such as groceries, day care, and health care. A tax should be honest and transparent; the Gross Receipts Tax is neither.

I would like to reiterate that the Las Vegas Chamber of Commerce's opposition to the Gross Receipts Tax, in no way should be construed to our opposition to all taxes. We remain committed to working with the Legislature on ideas that are more equitable, while maintaining the vibrant economic climate that we have come to enjoy. I thank the Committee very much for your time and attention today, I will be happy to answer any questions.
