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Implementation of Transaction Tax on Services

While the number of accounts that need to collect and pay a Transaction Tax on Services could bury the Dept of Taxation, the revenue potential is too large to ignore and such a tax would reflect the nature of Nevada's changing economy. This tax has the potential to be phased in to reduce the burden on the Dept for implementation. Legislators could start with services where the taxpayers are already account holders and where pyramiding is minimal, then add new services each quarter until the complete desired list is achieved. Unlike with the Products Tax, if an obvious business service is missed, it could be added in subsequent sessions. The phased in introduction is NOT our recommendation because it fails to produce enough early money this biennium. It is still a legislative option.

While a broader base lowers the tax rate, there may be good reason to lower our tax on product sales to the same rate for the majority of sales (Washoe & Clark). If the product and service tax rate are the same in the large counties, then adding the tax becomes easier and less of a burden for the businesses.

Product Sales Tax Rates / Revenue Estimates

Rate	Annual Revenue	Biennial revenue
0.25%	\$88.8 million	\$177.6 million
0.50%	\$177.6 million	\$355.2 million
0.75%	\$266.4 million	\$532.8 million
1.0%	\$355.2 million	\$710.4 million
2.0%	\$710.4 million	\$1.421 billion
2.25%	\$799.2 million	\$1.598 billion

The 2.25% rate is shown because that is the amount of the state (LSST) portion of Sales and Use Tax (SUT). Creation of a 5% Transaction tax on Services with a corresponding rate reduction of the Sales Tax on products would still generate about \$451 million in new revenue annually to the state. The best way to look at the options you have is to:

Take the Transaction tax revenue	\$
Subtract any SUT reduction	\$
Net revenue increase	\$