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Testimony by Glen Arnodo
Before the Assembly Taxation Committee
April 24, 2002

Good afternoon, Chairman and members of the committee. My name is Courtney Alexander and I represent the Culinary Union.

When we testified before you on the Care-Amodei bill, a couple of you asked us to do the same kind of analysis of the Chambers' service tax proposal. We have tried to do that, and we have been left with a lot of questions. But let me walk you through some of what we learned.

We had one *real* culinary family provide us details about their household expenses over the last 3 years. This two income family owns a house and two cars and lives much like many Nevadans.

We estimated from this exercise that this family would have paid an average of \$912 a year, exempting the services that seem to be excluded in the Chamber's proposal.

Let me walk you through some of these expenses. This culinary family sold one home for \$115,000 and bought a home for \$180,000 in 2000. They would have paid the service tax on the real estate agent's fees, on the title company's fees, and on the mortgage company's fees. That would total an extra \$390 to sell their house, and \$140 more to buy their next home. I would suggest that our members pay a larger percentage of their income for a place to live than higher income Nevadans

do, making these real estate taxes a larger burden for families of modest means – in a word, regressive.

This family also refinanced their home mortgage in the last year, as almost every home owner has recently. The services tax would have added \$138 to those costs.

Let's look at banking. This family has 2 bank accounts, and used ATMs or point-of-service transactions on an average of 6 times a week. Between service fees and those transactions, we estimated they would pay an additional \$44 per year in taxes if you tax those transactions. Think about it: banks get away with charging outrageous rates to withdraw your money from a machine – what has to be one of the most profitable segments of a bank's business – and then Bank of America and Wells Fargo tell us they want to tax that fee.

Its application to banking is also regressive. If you maintain a large balance, account fees and other service fees are waived. So our members are more likely to pay this portion of the tax than a wealthy family is.

Another closely related service we called retirement fees. Our family has a 401K and 2 IRAs to help them save for retirement, not an easy task these days. There are annual administrative fees for each of those accounts, and then the mutual funds offered for investment also charge management fees. This tax would subtract \$26 per year from this family's retirement savings, and add it to their tax bill. Once again, IRA providers generally waive administrative fees for accounts with high balances, leaving smaller savers to pay a disproportionate share of this tax compared to their income.

While not necessarily common, this family also would have paid \$1,600 in taxes for using an attorney following a car accident which injured one of the family members. The car accident was the fault of the other driver, and the proceeds of the legal action primarily paid for medical expenses and attorney's fees. If you tax legal services for individuals, you will be taxing working Nevadans for needing help adopting a child, collecting child support, or even getting divorced.

One of the biggest questions we confronted was whether rent would be taxable as a real estate service. The definition of real estate provided by Applied Analysis includes "real estate operators, and owners and lessors of real property...." We did not include it in our table because the family we studied owned their home, but if you tax an average rent of \$1,000 per month, it would cost a family \$600 per year in additional taxes. Taxing rent would obviously be regressive.

unintended consequences?

And while we are being asked to pay these taxes, let's look at what large corporations would do. Large corporations will adjust their business models to avoid paying this tax. They will likely use inside attorneys, accountants and engineers as much as possible, or they will export their service needs to other states. They won't need to hire a cleaning service for their premises, because they will be big enough to hire workers to do that work. Why would Wal-Mart use accounting services in Nevada, if they can pay for them through their California subsidiary, avoid the Nevada service tax, and then deduct those expenses from their California corporate income taxes?

How does that broaden our tax base to include the large corporations who profit substantially from Nevada's growth, and pay next to nothing for the growing needs of our state?

It is not our job to argue whether small businesses are disadvantaged by this plan, but it is our job to make sure the tax package that takes our schools into the 21st century is stable and broad based. If the Legislature passes this plan, and large corporations figure out how to minimize their tax bill – which they will – the tax base will shrink and the exemptions will shrink with it.

2.3 b sales tax
We already rely on volatile tax revenues for most of the state budget, and I would suggest that a services tax is not only volatile, but very unpredictable. It is certainly not the third leg of the stool that we are all looking for. And while we export 28% of sales taxes to tourists, we will export service work to other states, leaving working Nevadans paying the bills again.

*10m
winds
pay
if lower by 2%*
lost by NVS. \$180m that tourists now pay in taxes
While I think everyone likes the idea of sales tax relief, the Chamber's materials are misleading at best, when they show an average family being exempt from all services taxes and seeing their sales tax bill reduced. *That means an average household doesn't use banking services, real estate services*
What we do need is a broad-based business tax, so that large corporations like Wal-Mart and Wells Fargo pay taxes on the money they make in our state, instead of letting them tax our ATM and 401K fees.

~~businesses don't pay taxes~~