BDR 32-699
AB 161

EXECUTIVE AGENCY
FISCAL NOTE

AGENCY'S ESTIMATES

Date Prepared: February 27, 2015

Agency Submitting: Department of Taxation

Items of Revenue or Expense, or Both	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Effect on Future Biennia
Property Tax Loss (Revenue)		($665,047)	($665,047)	($1,330,094)
Total	0	($665,047)	($665,047)	($1,330,094)

Explanation (Use Additional Sheets of Attachments, if required)

Has Impact

Name Deonne Contine

Title Executive Director

DEPARTMENT OF ADMINISTRATION'S COMMENTS

Date Friday, February 27, 2015

The agency's response appears reasonable.

Name Julia Teska

Title Director

DESCRIPTION OF FISCAL EFFECT

BDR/Bill/Amendment Number: BDR 32-699

Name of Agency: Department of Taxation

Division/Department:

Date: February 18, 2015

BDR 32-699 provides property tax and sales tax abatements for the taxable aircraft or aircraft components of a qualifying business that owns, operates, manufactures, services, maintains, tests, repairs, overhauls or assembles aircraft or aircraft components. If the business is new, the qualifying criteria include having five or more full-time employees within a year of obtaining a certificate of eligibility. If the business is an existing business, there must be an increase of at least 3% or 3 employees, whichever is greater, in the number of new employees. A new or existing business must also meet at least one of the following criteria: (1) make a new capital investment of $250,000; (2) possess tangible personal property having a value of not less than $5,000,000; (3) pay an average hourly wage equal to the average statewide hourly wage; (4) develop, refine or own a patent or other intellectual property; or (5) been issued a “supplemental” type certificate pursuant to 14 CFR Part 21. It should be noted that the criterion of $5,000,000 of tangible personal property does not have to be invested in aircraft and a business could qualify for the abatement regardless of the value of the aircraft itself.

Property Tax Abatement

The latest Statistical Analysis of the Roll published by the Department (2013-14), shows assessors valued a total of 2,259 aircraft in the state having a total assessed value of $405,691,374. *See Exhibit 2.* The Department estimates an additional assessed value of $26,218,463 for centrally-assessed aircraft that are subject to regulation under 14 CFR part 125 and 135 and therefore subject to abatement per this bill. The total assessed valuation for both locally and centrally-assessed aircraft that would currently be eligible for abatement of property tax is $431,909,837.

Exhibit 2 shows fiscal impact at different levels, including if 1%, 10%, or 20% of assessed value would qualify for abatement. The total assessed value by county (Col. B) was multiplied by the percentage factor (1%, 10%, or 20%) to determine the amount of assessed value which would qualify for abatement. That amount of assessed value was then multiplied by the average county tax rate for 2014-15 (Col. F) to determine the total estimated taxes. *See 2014-15 “Property Tax Rates for Nevada Local Governments” (Redbook).* The total estimated tax (Col. H) was then multiplied by the abatement rate of 50% of the taxes on personal property provided in NRS 361.0687. The total annual estimated amount of abatement would be about $63,519 for locally-assessed airlines and about $3,764 for centrally-assessed airlines for every 1% of assessed value qualifying for abatement. The total at the 1% level for both locally-assessed and centrally-assessed aircraft is $134,565.

This analysis assumes that 10 percent of the total tax represents aircraft which would qualify for the abatement. The analysis was based conservatively on 10%, considering that 23% of the total aircraft in the state registered by the FAA were owned by corporations.[1] The FAA database also shows about 77% of the total aircraft are owned by individuals, partnerships, governments, and other. About 3% of the total aircraft registered have a payload capacity greater than 12,500 pounds.

The bill draft provides an exception for scheduled and unscheduled airlines that are valued by the Department of Taxation ("centrally-assessed property") on behalf of the Nevada Tax Commission pursuant to NRS 361.320 (1), except for those that are regulated under 14 CFR Part 125 or Part 135.

NRS 361.320 provides that airlines must be valued first as a system-wide collective unit, known also as a "unitary valuation." NAC 361.402 defines "unitary method of valuation" as a method of valuation which recognizes that a scheduled or nonscheduled airline is an integrated enterprise and that its market value is not a summation of the values of its various physical components but its value as a whole. Unlike county assessors, this means that the Department does not keep track of individual assets of the company. The unitary value contains the value of all real and personal property of the company without regard to individual assets.

A portion of the system-wide value is then allocated to Nevada based on a complex set of formulas for determining what part of the unitary value represents the value of property located in Nevada. The value so allocated to Nevada must then be apportioned among the various taxing jurisdictions in the state based on additional apportionment formulas. Any given taxable value in a jurisdiction represents a proportionate fraction of the system-wide value and not any particular piece of real or personal property. As a result, the Department will have to do a reconfiguration of its valuation and billing programming to determine how to apply an abatement to a value which is not specific to an individual aircraft or aircraft parts. Staff estimates 120 hours of re-programming effort. In addition, additional valuation procedures will have to be created and maintained in order to keep track of individual pieces of equipment. The Department can absorb these expenses.

Total revenue loss for both centrally assessed and locally assessed aircraft is estimated the same for both years, assuming no change in value. This estimate assumes abatements are granted based on the criteria available other than the $250,000 investment. There is no information about how many abatements would be granted, nor whether a $250,000 investment would be made since an abatement may be granted without additional capital investment. However, the total amount of tax increase for each $250,000 capital investment would be $2,733. (250,000*.35 = 87,500 AV. 87,500 * .031232 average statewide tax rate = $2,733). This amount would have to be subtracted from the total estimate of revenue loss.

Property Tax Revenue Loss:

2016	($ 665,047)
2017	($ 665,047)
Future biennia:	($1,330,094)

[1] FAA registry at http://registry.faa.gov/aircraftinquiry/statecounty_inquiry.aspx

Sales & Use Tax Abatement

In order to administer the Sales and Use Tax abatement, the Department can use existing functionality in the Unified Tax System in order to receive and process the approved abatement tax returns. Minor programming changes can be made in order to statistically track data on this particular abatement program. The Department can absorb the costs of making these programming changes.

The Department is unable to determine the effect that this abatement will have on revenue.   We do not have the information to identify number of abatements or taxable measure of the abated tangible personal property that would cause a decrease in revenue. Conversely, we are unaware of the economic impact that this bill would create to increase revenue.

Exhibit 2

Nevada Department of Taxation

Fiscal Note for SB 93

Estimated Aircraft Abatement

	A	B	C	D	E	F	G	H	I	J	K	L	M
	2013-14 Secured And Unsecured Roll		FAA Registry Data			Property Tax		If 1% of total taxes are abated		If 10% of total taxes are abated		If 20% of total taxes are abated	
County	Number of Assessments	Assessed Value	Corporate Owned % of Total FAA	Individual or Partnership Owned % of Total FAA	Over 12,500 wt % of Total FAA	Average County Tax Rate 2014-15	Total Estimated Taxes	Estimated Total Taxes if 1% eligible for abatement	Estimated Abated Taxes	Estimated Total Taxes if 10% eligible for abatement	Estimated Abated Taxes	Estimated Total Taxes if 20% eligible for abatement	Estimated Abated Taxes
Carson City	214	$ 4,719,516	72%	28%	7%	0.035230	$ 166,269	$ 1,663	$ 831	$ 16,627	$ 8,313	$ 33,254	$ 16,627
Churchill	67	$ 410,715	8%	92%	0%	0.030305	$ 12,447	$ 124	$ 62	$ 1,245	$ 622	$ 2,489	$ 1,245
Clark	1,001	$363,804,636	53%	47%	18%	0.030562	$ 11,118,597	$ 111,186	$ 55,593	$ 1,111,860	$ 555,930	$ 2,223,719	$ 1,111,860
Douglas	234	$ 6,046,901	37%	63%	3%	0.031648	$ 191,372	$ 1,914	$ 957	$ 19,137	$ 9,569	$ 38,274	$ 19,137
Elko	73	$ 1,339,446	27%	73%	2%	0.028969	$ 38,802	$ 388	$ 194	$ 3,880	$ 1,940	$ 7,760	$ 3,880
Esmeralda	3	$ 994	0%	100%	0%	0.030195	$ 30	$ 0	$ 0	$ 3	$ 2	$ 6	$ 3
Eureka	3	$ 18,220	13%	88%	0%	0.017790	$ 324	$ 3	$ 2	$ 32	$ 16	$ 65	$ 32
Humboldt	36	$ 455,142	31%	69%	0%	0.025526	$ 11,618	$ 116	$ 58	$ 1,162	$ 581	$ 2,324	$ 1,162
Lander	10	$ 19,284	8%	92%	0%	0.033597	$ 648	$ 6	$ 3	$ 65	$ 32	$ 130	$ 65
Lincoln	3	$ 39,287	25%	75%	0%	0.030650	$ 1,204	$ 12	$ 6	$ 120	$ 60	$ 241	$ 120
Lyon	112	$ 632,513	20%	80%	7%	0.033617	$ 21,263	$ 213	$ 106	$ 2,126	$ 1,063	$ 4,253	$ 2,126
Mineral	5	$ 14,500	0%	100%	0%	0.036229	$ 525	$ 5	$ 3	$ 53	$ 26	$ 105	$ 53
Nye	50	$ 252,268	14%	86%	1%	0.032986	$ 8,321	$ 83	$ 42	$ 832	$ 416	$ 1,664	$ 832
Pershing	5	$ 15,362	15%	85%	0%	0.032305	$ 496	$ 5	$ 2	$ 50	$ 25	$ 99	$ 50
Storey	1	$ 1,652	0%	100%	0%	0.034604	$ 57	$ 1	$ 0	$ 6	$ 3	$ 11	$ 6
Washoe	418	$ 27,822,946	42%	58%	7%	0.034959	$ 972,662	$ 9,727	$ 4,863	$ 97,266	$ 48,633	$ 194,532	$ 97,266
White Pine	24	$ 97,992	28%	72%	0%	0.036600	$ 3,587	$ 36	$ 18	$ 359	$ 179	$ 717	$ 359
Total Locally Assessed Aircraft (Average FAA data)	**2,259**	**$405,691,374**	**23%**	**77%**	**3%**		**$ 12,548,224**	**$ 125,482**	**$ 62,741**	**$ 1,254,822**	**$ 627,411**	**$ 2,509,645**	**$ 1,254,822**
Add													
Centrally-Assessed Part 125 & 135 Aircraft	13	$ 26,218,463					**$ 752,725**	**$ 7,527**	**$ 3,764**	**$ 75,273**	**$ 37,636**	**$ 150,545**	**$ 75,273**
Total All Aircraft	**2,272**	**$431,909,837**					**$ 13,300,949**	**$ 133,009**	**$ 66,505**	**$ 1,330,095**	**$ 665,047**	**$ 2,660,190**	**$ 1,330,095**

Note 1: The actual amount of abated taxes is dependent upon the number of qualifying companies and the value of each aircraft. This exhibit suggests that the taxes to be abated could range from 1% to 20% of the total property taxes due.