

UNSOLICITED
EXECUTIVE AGENCY
FISCAL NOTE

AGENCY'S ESTIMATES

Date Prepared: April 8, 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 |
|---|--------------------------------|--------------------------------|--------------------------------|-------------------------------------|
| Potential Loss of Revenue (Revenue) | | (\$3,000,000) | (\$5,000,000) | (\$10,000,000) |
| Total | 0 | (\$3,000,000) | (\$5,000,000) | (\$10,000,000) |

Explanation

(Use Additional Sheets of Attachments, if required)

Please see attached.

Name Deonne Contine
Title Executive Director

DESCRIPTION OF FISCAL EFFECTBDR/Bill/Amendment Number: AB 389Name of Agency: Department of Taxation

Division/Department: _____

Date: April 7, 2015

Currently, Employee Leasing Companies (“ELCs”) pay the unemployment insurance (UI) contributions pursuant to NRS 612. In turn, the Employment Security Division (ESD) provides the wage information for the single ELC to the Department of Taxation for purposes of assessing the Modified Business Tax (MBT) under NRS 363B. For the MBT, the ELC calculates gross wages, deducts health insurance costs and pays the MBT on the wages above \$85,000 per quarter.

AB 389 (as proposed to be amended at hearing on 4/6/2015) provides that an ELC shall disaggregate those client companies for purposes of calculating the UI contributions. Each client company will be the deemed employer and ESD will provide wage information to the Department of Taxation for each client company. Accordingly, each client company (as opposed to the ELC) will be entitled to the \$85,000 exemption per quarter.

Revenue:

The Department estimates a loss in MBT due to this legislation. By utilizing internal reporting and NAICS classifications, the Department has determined that approximately \$5 million in MBT is collected from ELCs on a yearly basis. The largest 5 ELC’s reported \$309 million in gross wages and paid over \$3 million in the MBT in the last year. When allowed to disaggregate their client companies, the amount of non-taxable wages will likely increase because each of their contract companies will be entitled to the \$85K deduction per quarter, thus decreasing the total tax remitted by these companies to, in some cases, zero. Without the exact number of companies that each ELC contracts with, and their exact wages the Department is unable to determine an exact revenue loss; however, we believe that each ELC contracts with multiple businesses and thus the impacts to revenue could be up to \$5 million annually.