

**MINUTES OF THE MEETING  
OF THE  
ASSEMBLY COMMITTEE ON TAXATION**

**Seventy-Eighth Session  
February 17, 2015**

The Committee on Taxation was called to order by Chairman Derek Armstrong at 1:33 p.m. on Tuesday, February 17, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/App/NELIS/REL/78th2015](http://www.leg.state.nv.us/App/NELIS/REL/78th2015). In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: [publications@lcb.state.nv.us](mailto:publications@lcb.state.nv.us); telephone: 775-684-6835).

**COMMITTEE MEMBERS PRESENT:**

Assemblyman Derek Armstrong, Chairman  
Assemblyman Randy Kirner, Vice Chairman  
Assemblywoman Teresa Benitez-Thompson  
Assemblywoman Irene Bustamante Adams  
Assemblywoman Olivia Diaz  
Assemblywoman Jill Dickman  
Assemblyman John Hambrick  
Assemblyman Pat Hickey  
Assemblywoman Marilyn K. Kirkpatrick  
Assemblywoman Dina Neal  
Assemblyman Erven T. Nelson  
Assemblyman Glenn E. Trowbridge

**COMMITTEE MEMBERS ABSENT:**

None

**GUEST LEGISLATORS PRESENT:**

None



**STAFF MEMBERS PRESENT:**

Russell Guindon, Principal Deputy Fiscal Analyst  
Michael Nakamoto, Deputy Fiscal Analyst  
Bryan Fernley, Committee Counsel  
Gina Hall, Committee Secretary  
Olivia Lloyd, Committee Assistant

**OTHERS PRESENT:**

Deonne E. Contine, Executive Director, Department of Taxation  
Caleb S. Cage, Director of Military and Veterans Policy, Office of the Governor  
Darrol L. Brown, representing Carson Area Chapter 388, Vietnam Veterans of America  
Vicky Maltman, Private Citizen, Sun Valley, Nevada  
Jeffrey J. Frischmann, Chief, Unemployment Insurance Operations, Employment Security Division, Department of Employment, Training and Rehabilitation

**Chairman Armstrong:**

[Roll was called and housekeeping items discussed.] The first item on the agenda is the overview of the Tax Expenditure Report.

**Deonne E. Contine, Executive Director, Department of Taxation:**

I am here today to give you an overview of the Tax Expenditure Report ([Exhibit C](#)), and I hope to answer any questions you may have.

As some of you know, last session Assemblywoman Kirkpatrick sponsored a bill that provides for a tax expenditure report. When you talk to people about this, they ask why it was not given a better name than tax expenditure report. Tax expenditures are just exemptions, abatements, exclusions, or other ways that a taxpayer might not be required to pay a tax that would ordinarily apply to them.

To give you some background, the Department of Taxation was ultimately charged with putting this report together, but the information in the report came from several different agencies. Our office started working with the Department of Administration shortly after the 77th Session. We actually had a database built to house this information.

My staff started working with various agencies, the Department of Motor Vehicles, gaming, and with the local governments to get property tax and other

local government data. We compiled it in this report, which is actually quite long and why I did not bring a copy for everyone. I do have a copy here and if you ever want a copy just call me. It is also on our website.

In putting this information together we found that we have the most expenditures in exemptions. The reason for that is that there are many large categories of exemptions in the sales tax, including food and medicine. With respect to that data, like many of the taxes we administer, it is a self-reporting tax, so we do not know exactly how much it costs to exempt food.

What we did within this report, with the Budget Office and the help of the Department of Administration, is we looked at statistical information from the U.S. Department of Agriculture (USDA) and from other federal sources for medicine and those types of exempted items, and came up with estimates. This is the information you will see in the report for sales tax, to the extent that data could be gathered and Nevada-specific expenses derived from that data.

In the report you will see there is very little information on the live entertainment tax. This has been a discussion we have had, I do not know if it was in this Committee or in others, but it is not reported, so we do not know the cost of those exemptions.

With respect to the property tax and the real property transfer tax, a lot of that information came from the local governments, and they did a lot of work to provide that to us.

**Chairman Armstrong:**

The Tax Expenditure Report ([Exhibit C](#)) is uploaded to the Nevada Electronic Legislative Information System (NELIS). If the members of the Committee want to log in to NELIS, you can follow along. The report is 262 pages, so that is why we do not each have copies.

**Deonne Contine:**

One thing I will point out about the data is that for fiscal year (FY) 2013 it was about \$2 billion in tax expenditures, and then in FY 2014 it was about \$1.5 billion (page 6, [Exhibit C](#)). The reason for that is the data I spoke of earlier, the analysis that could be done on USDA and other federal data was available to us when we did the report for the second year.

I could go into specific exemptions or provisions if you have questions. I want to discuss what you want to discuss, because there are a lot of numbers here. I am open for questions if you have them.

**Assemblywoman Neal:**

Reading through this report I was trying to get an understanding of what the difference was between a subtraction and a deduction. For example, in the net proceeds of minerals, there were certain pages that said deduction and others that said subtraction. I could not find the definition.

**Deonne Contine:**

Generally we used what was in the statute. For the net proceeds of minerals they have deductions—that is what they are called. So they get a deduction for transportation, or they get a deduction for health care. They have their gross yield and their net proceeds, and they get the deduction, and that is what it is called in statute.

We also have abatements, and those are more like when the Governor's Office of Economic Development grants an abatement. The information related to that would be the abatement. Credit is another term. The insurance premium tax has several credits, which is what it is called in statute, so they get a credit toward their premium tax liability. We tend to call them in the report what they are called in statute. A subtraction is what we would put on a cost of collection allowance. For many taxes, the taxpayer gets to keep a percentage for collecting the tax and sending it to the Department, or the other taxing agency, so we would include those. Generally we try to mirror what they are called in statute.

**Assemblywoman Bustamante Adams:**

Is there a list with verbiage for the definitions that my colleague asked about? What is a deduction or subtraction, so that when we are writing a bill draft request we use the correct word?

My second question has to do with page 2 ([Exhibit C](#)), where it talks about the request for information. I know you said this was a collaborative effort, but was there any pain point in getting information from the State Gaming Control Board, or from some of the other entities? Is that something we need to address in statute? Did you get the information in a timely manner, so you could do your job?

**Deonne Contine:**

I do not have any complaints about how people dealt with us. I think everybody knew they had to do it. Sometimes there were concerns regarding how they were going to get the information. I never had a situation where they just refused, even the local governments. Ms. Rubald's staff [Local Government Services] worked with them, and I believe they had to do some reprogramming

within their systems to get certain information to us. I never received a report from any of my staff that anyone was difficult to work with at all.

**Assemblywoman Bustamante Adams:**

I do just want to make a statement. I appreciate Assemblywoman Kirkpatrick's effort to get this done. It is the first time we have actually seen it in print. I appreciate your Department doing the work and collaborating with the entities. It gives us a starting point.

My next question has to do with the reporting. You mentioned that in FY 2014 the amount was \$1.5 billion, and it was because you did not have the data. If we were to change the reporting requirements as to the date when we actually have to receive the report, would that help you to get a better 360 degree picture instead of just getting half of the data?

**Deonne Contine:**

I would have to say it is likely, but I do not know when that date would be. The economist at the Department of Administration did the analysis, so I would have to check with her as to when that data is available. I think this date was chosen because it would be right before a session. I would think that if the date were delayed there would likely be more information available, but I do not know if it could be delayed enough to still serve the purposes of being available during each legislative session. I will check with her and ask when that data becomes available.

To answer your first question earlier when you asked about the list of the deductions, subtractions, abatements, and what they are called. That language basically just came from the statute, and that was what was referenced as "a tax expenditure, means any law of this state that exempts in whole or in part...tax abatements, tax credits, tax deductions, tax deferrals, tax exemptions, tax exclusions." Because this is broad, for example, you would not know what we would put a collection allowance under, that might be a thing to revise in the report.

**Assemblyman Nelson:**

I was just curious about the exemption for food for human consumption, which is in *Nevada Revised Statutes* (NRS) 372.284. It does not include prepared food intended for immediate consumption, but it includes everything else, right?

**Deonne Contine:**

Right.

**Assemblyman Nelson:**

This is the one you were trying to get some statistics on from the USDA?

**Deonne Contine:**

Right.

**Assemblyman Nelson:**

Do you have an idea right now what they would be? I have the same question on medicines.

**Deonne Contine:**

Food for human consumption is on page 207 of the report [page 226, [\(Exhibit C\)](#)]. The amount is \$422 million for FY 2013. The information was estimated using the USDA 2012 data for food-at-home expenditures in the United States and the Bureau of Economic Analysis calculations of personal disposable income in the United States and Nevada. The total sales were derived by calculating the share of the U.S. personal disposable income spent on food-at-home in calendar year (CY) 2012, multiplied by Nevada's personal disposable income in CY 2013. That is what the economist did to give a number for what it would be for Nevada.

**Assemblyman Nelson:**

I could not find one for medicine.

**Deonne Contine:**

I am sorry. I must have misspoken. There was other federal data that the economist used to come up with estimates, but I guess medicine was not available.

**Chairman Armstrong:**

I will ask my staff to clarify some of these expenditures, and then we will take some more questions.

**Russell Guindon, Principal Deputy Fiscal Analyst:**

I would like Ms. Contine to clarify and confirm that when we are looking at the tax type related to sales and use tax, that when the Department is able to put in the expenditure amount, it is the total sales tax rate, and not just the General Fund portion?

**Deonne Contine:**

Yes.

**Russell Guindon:**

As the Department of Taxation went through the sales tax—which is 6.85 percent—there is the State General Fund 2 percent, the local school support portion at 2.6 percent, and the basic city-county relief tax and the supplemental city-county relief tax at 2.25 percent. That last one goes back to the locals through the Consolidated Tax Distribution, and then there are multiple others throughout the counties where they can have local option rates that are either authorized in the law or through special local acts.

I think this is an important point, and I appreciate the Chairman allowing me to make it, not only for the members of the Committee, but for the public as well, that the amounts in the report, when the Department was able to get their hands on the information or could find a way to estimate the information, were the total rate portion, not just the General Fund portion.

**Chairman Armstrong:**

When you go through this report you see a lot of things about which you might think it would be great if we could eliminate them, but there is reason for caution about this, as for example, with the sales and use tax. Could you clarify on this as well?

**Russell Guindon:**

Food is a very good example of one that has already been discussed. Some of these would require constitutional amendments to be able to eliminate that. You could entertain going forward with a ballot question this session to amend the *Nevada Constitution*, but then you would have to do it again, so it would be a multiple-year period before you would—"if the voters amended the constitution"—be able to recognize revenue from that change. Does that address the point you wanted made Mr. Chairman?

**Chairman Armstrong:**

Yes it did.

**Assemblyman Kirner:**

I recall in our last session when Assemblywoman Kirkpatrick brought this bill forward I was pleased to support it, because for the first time we would have a very consolidated record of what we were abating, which stuck in my mind more than the sales and use tax. The idea behind that, as I recall, was that we would take the next step and then use this data to get rid of things that we no longer need, in terms of abatements, and so on and so forth. This is all good data. I am hopeful we will get to use it during this session, and we can maybe clean up some of these things per our discussions last session.

I thank Assemblywoman Kirkpatrick for asking for this. I know it is a ton of work, so thank you to the Department as well.

**Assemblywoman Kirkpatrick:**

In 2007 I started trying to get this very bill, because we were one of five states that did not have some type of report where we could track things. I tried a different way, because it costs money to have a staff person actually put this in place. I tried a different way, requiring it as a policy statement, to have economic development give us this information, so we could put it together, and the legislative commission would actually get a report. I think it is biannually now, so they could keep track of it. What we were seeing back then was everybody and their brother wanted to give an abatement away, and we had some that were on the books from the 1980s that were never used.

The truth of the matter is some businesses said they would move here if we would do this, and they would go to the next state and say the same thing. We have seen this, in particular with the movie incentives. There were a lot of things across the country on that, so last session, finally after my bill died for fiscal reasons, the Department was able to start the process.

The amount was \$150,000, and I believe this was one of Ms. Contine's primary functions when she first came on board, to try and collaborate and get some of this data. We did not put any real resources into it, except for hiring Ms. Contine to start that process.

The press will say that there is \$3 billion worth of exemptions that are out there. I believe it is the Legislature's job to weigh which exemptions and abatements make sense. As for the one on food, why should we get rid of it when it benefits millions of people within our state, and it truly is a small amount?

There are some exemptions within that report that, say, three people benefit from, and it is a large dollar amount. Those are the ones I think at some point the Legislature should look at, to see if we are really getting a return on our investment.

I do hope that this session the Department can put some kind of appendix in the back to explain some of the definitions, so that people know how to use it.

This really gives us a good foothold on at least what was on the books as of last session, but I think there is so much more we could do. That too costs staff time to have someone do it, so it is about another \$150,000 to probably keep it going, or to have a full-time staff member track it.



I was trying to give some points on how we could move forward.

**Deonne Contine:**

I would like to add that in this process, in my job, I looked at what resources we had and basically called and told people they were going to help out. I made it a priority for people to facilitate this.

Going through this process, as we were working on it, thinking about how the final product turned out, I do not think it is very pretty. I would like to have a system in place where you could search this document online. We could not deal with that in the interim this time, because it would have cost more money to have some type of online database in place that you could search.

During this process I have thought of other ways we might go about making it better, just little things. When you do something the first time you sometimes think, if I had known that, then I would have done this. I have a list of things to work on with my staff. Including the questions you have and the comments about the definitions of certain things, such as what is a deduction—saying a deduction is what the statutory language is, explaining that so it is more transparent, people understand it, and it becomes more user friendly. I see that as a goal going forward and for maintaining this, and I hope that with resources it could be something really significant. Even without the resources that is my thought going into it.

**Assemblywoman Kirkpatrick:**

States such as Oregon actually use a tax expenditure report for their budgeting process. They require their governor to use that additional information. So it is a policy decision for the Committee to make if that is the direction they want to work toward. I think that is a few sessions away, but I do think agencies could help us get some of that information.

Bringing up another point on the food, how much of that is Supplemental Nutrition Assistance Program dollars that actually help our rural communities with agriculture? There is not a lot of opportunity for us to get as much information as we want, but we are starting.

We were 150 years old when we started this, and it is going to take us some time to move forward. I am thankful that the Department of Taxation gave in to my crying after four sessions and helped me absorb the \$150,000.

I think there is some basic information in the report. There are a lot of parts that are incomplete, and that is because the resources are not there to dig the

information out. You all will be here a much longer time, so maybe this could be your policy decision to get more information with the proper resources.

**Chairman Armstrong:**

I think this is an incredible tool, especially for those of us sitting on this Committee for the first time, to actually get a handle on some of these expenditures. Does the Department of Taxation have any legislative changes, besides those you listed, things that you would change, or that we could address this session, as far as this report is concerned?

**Deonne Contine:**

I do not understand the question. I am sorry.

**Chairman Armstrong:**

Is there something in the legislation that provides for this report, that you would like to see changed?

**Deonne Contine:**

Do you mean in the actual statute that requires the executive director to do the report?

**Chairman Armstrong:**

I am just trying to figure out if we have done what we need to do to provide you with the ability to create this report, and if there is something that we need to do or change in order for this report to become different or more efficient for you?

**Deonne Contine:**

One thing I noted when we were pulling the information together is that sometimes it is difficult to tell from the statute what the purpose of the exemption or abatement or other expenditure is. In some cases if it is an economic development abatement, you assume it is in economic development, but for many of the things there is not a lot of information in the actual statute. To really understand would probably require a legislative history of the exemptions, and you still might not understand. From my standpoint, in terms of compiling information and making it available, as exemptions, abatements, and deductions are considered by the Committee, there needs to be a policy indication, either in the statute or the reviser's note, so when you are pulling the information together you can get the purpose of the expenditure. That is just a general thing. In Oregon they have like categories, so they put everything into certain categories for the expenditures.

There is the technology part of it, and I do not know the exact cost of that. I would have to get with staff. It would be beneficial to have the resources to put something together that is a little more user friendly, being able to take our database and make it searchable, and not just a PDF. I would have to have some discussions, but I think that could make it better.

I think it will be better because it has been done once. I think there are some things we have learned through the process, and doing it in the next session it will continue to get better, as long as the people are interested and everybody is working together.

**Chairman Armstrong:**

Does my staff have some input?

**Russell Guindon:**

As Assemblywoman Kirkpatrick stated earlier, she had been working on this for some time. I am providing your fiscal staff's comments here today. After the bill was passed, Ms. Contine would call and talk to me during the interim about where the Department of Taxation was trying to go with this, and we would discuss it with their staff.

Realizing as your nonpartisan legislative staff it is not our role to guide an agency, we did have discussions about where the Department was trying to go, which were somewhat at the direction of Assemblywoman Kirkpatrick. I think there have been several legislators that fiscal staff has actually had discussions with regarding this report.

I think after we survive session your fiscal staff could, during the interim, work with Ms. Contine and her staff to incorporate some of those things. I also think as we go through the session and other legislators look at the report, we will be able to answer the questions you ask. We will know whether it is something that we can talk to Ms. Contine about that just needs to be done, and could be done without changes to the law. As we work through it, with you as the Chairman of this Committee, and with the sponsor of this legislation, Assemblywoman Kirkpatrick, we may see whether there might be changes to the law that are needed, that provide direction to the Department of Taxation. Some of the legislators we have met with as your staff have provided comments about things they think might make the document more useful, and more user friendly. I think those are some of the same things that Ms. Contine has in mind.

I just wanted to get that out there. We know there were a lot of start-up costs to get this in place. Now, hopefully, you can move into the maintenance cost

phase, as we go forward into this next interim for the second version of the report.

In terms of your fiscal staff, possibly from some of the comments we got, we could take them and work with Ms. Contine and her staff in the interim for the second version of the report.

**Assemblywoman Bustamante Adams:**

On page 202 [page 221, ([Exhibit C](#))] is the sales and use tax exemption for containers. The year it was enacted was 1955, and it does not have a sunset date. The expenditure amount is not available because it is not required to be reported to the Department, so we do not have any information?

**Deonne Contine:**

Correct.

**Assemblywoman Bustamante Adams:**

So we do not have any record then of it being used? We do not know the amount, right? How do we fix things like that? Would we have to go back and correct what is in statute in order to fix that?

**Deonne Contine:**

The original enactment was in 1955, and that was by a vote of the people. You do not have to pay sales tax on whatever the food is wrapped in. So if you buy something in the store and it is wrapped in some other tangible personal property, then you do not pay tax on that. If it is put in some type of a container, you would not pay tax on that if you were purchasing it with the food, unless it was food prepared for immediate consumption.

Everything that is in the 1955 original enactment could only be changed if it were voted on by the people.

There have been some amendments along the way and there were some changes, so there will be some other years that you will see, but for the most part the bulk of our sales and use tax was enacted in 1955 by a vote of the people. The way that sales tax is reported, we get the taxable sales and the tax amount. We would not get anything reported to us unless it was taxable. This is not really a solution, but the only solution would be to have people report everything they sell, and that is just not how we do it now. We only get taxable sales, what is sold that is taxable. That is why there is no information on many of the exemptions for sales and use tax.

**Assemblywoman Bustamante Adams:**

I believe Oregon mandated for all tax expenditures to be sunsetted. I do not know if you know this off the top of your head, could we do that to have people come back and justify why this request was still relevant, and if it had any value for Nevada at all?

**Deonne Contine:**

I think you all could do that for most anything, except for the Sales and Use Tax Act, that requires a vote.

**Chairman Armstrong:**

I do not think we can do anything in NRS Chapter 372. It would all have to go through a referendum. Assemblywoman Kirkpatrick, do you have anything more?

**Assemblywoman Kirkpatrick:**

As we look at some tax reforms and policy decisions at some point, for business to help us, maybe through their business license fee, we need to have that discussion.

Do you think there is a way, especially as we look at some tax reforms and policy decisions, for business to help us, maybe through their business license fee, to put things into categories? To give an example, currently everybody fills out the paperwork on a modified business tax (MBT). Whether or not they pay it, everybody fills it out, so we have a very good tracking system for that. Is there a way to have businesses check boxes to indicate where their taxable sales go? For instance, if you owned a grocery store, your taxable sales are one thing, but you sell other items, and you also sell non-grocery items. If we could collect the data, whether they pay tax on it or not, we would have an idea.

I think at one point we passed a constitutional amendment for farm equipment. It seems to me that would be particularly easy to get the information on, because there are only a certain number of dealers that sell that equipment.

So, is there a way, in the very near term, we could work toward some of those bigger exemptions and narrow it down with a simple reporting requirement? I suppose we could put it in a bill that says "you have to report this data."

**Deonne Contine:**

The way it is now people report their taxable sales. The MBT is a little bit different, for various reasons. Regarding a requirement that a retailer report exactly what its nontaxable sales are, I would have to think that through. With respect to the one Assemblywoman Bustamante Adams mentioned earlier,

if your food is in some type of a container when you buy it at the store, are we going to make them give us an amount for what the value would be if they were to pay tax on those containers?

You might have to think about each one and how you would get that information. It might be different for each one.

**Assemblywoman Benitez-Thompson:**

I think the thing that shocked me the most about this report, in working through it and having conversations with staff, and I hope the Committee appreciates this, is the difficulty of changing our tax structure. It is not as if we have a bunch of low-hanging fruit here and we can go through and get rid of half of it and we would not have a budget problem anymore.

So many of these are constitutionally based, so it would take referendums or a multiyear process to address any of them. Then there are others we probably would not consider undoing, such as exemptions for nonprofits or exemptions for our veterans. I was surprised by the types of exemptions we have and who they benefit. It is going to take a lot of work to figure out what actually could be changed. I know the state now requires that when we establish an exemption, there is a sunset on it, but so many of these are not subject to a sunset. If we start to go through them, I think it might make sense to pare that down by possibly not considering all the nonprofits, or all the veteran pieces. Maybe we should look at it by manufacturer or sector where exemptions are granted, to see if they are still serving a beneficial purpose.

**Chairman Armstrong:**

Are there any questions? [There were none.] Thank you, Ms. Contine.

We will close that part of the agenda and open the hearing on Assembly Bill 71.

**Assembly Bill 71: Revises provisions relating to military veterans and members and relatives of members of the Nevada National Guard. (BDR 32-297)**

**Caleb S. Cage, Director of Military and Veterans Policy, Office of the Governor:**

I am looking forward to presenting Assembly Bill 71 for you today. This bill has three provisions to it. I look forward to answering your questions and making any appropriate adjustments to the bill [read from ([Exhibit D](#))].

As all of you know, over the course of the last year and a half, we in the Office of the Governor, with legislative partners through the Interagency Council on Veterans Affairs, the Veterans Services Commission, and other organizations, have put together what we believe is a comprehensive approach

to legislative reform, or at least the beginning of comprehensive legislative reform for veterans, service members, and their families here in Nevada.

The recommendations developed over the last year and a half came from various venues, including commission meetings and council meetings of the various policy councils, as well as a veterans legislative symposium, which is where two of the three recommendations for A.B. 71 came from, and the third came from the Interagency Council on Veterans Affairs. I would like to give a brief overview of those three provisions, which consider individual unemployability (IU) to be the same as 100 percent disability for state purposes; provide a payroll tax exemption for employers who hire unemployed veterans; and create a survivor's tax exemption.

Sections 1 and 4 of this bill revise provisions governing property tax and the government services tax (GST) to provide that a person who receives an IU rating as described in federal regulations qualifies for the maximum allowable exemption from those taxes. Nevada currently offers a property tax and GST exemptions to combat veterans, which are determined by their percentage of disability. The amount of the exemptions that are, or will be, allowed to disabled veterans vary from \$6,250 to \$20,000 of assessed valuation, depending on the percentage of disability and the year filed. Among other things, to qualify for these exemptions the veteran must have an honorable separation from the service and be a resident of Nevada. Individual unemployability is a part of the federal U.S. Department of Veterans Affairs (VA) disability compensation program that allows the VA to pay certain veterans compensation at the 100 percent rate, per schedule, even though the VA has not rated their service-connected disabilities at that level. A veteran must be unable to maintain gainful employment as a result of his or her service-connected disabilities. Additionally, a veteran must have one service-connected disability rating at 60 percent or more, or two or more service-connected disabilities with at least one rating at 40 percent or more, with a combined total rating of 70 percent. This proposed legislation aims to apply the same tax exemption for those who fall under IU as those who are 100 percent disabled. The VA reports that there are currently 3,701 veterans identified as IU in Nevada.

**Assemblywoman Kirkpatrick:**

Let me start off by saying I am married to a veteran, so I am very sympathetic to veterans, but I also know we have to ask the hard questions in this Committee.

I understand exactly why we want to do this. I think in the past we have had some portions of this type of bill, whether it was the modified business tax

(MBT), or different variations of this, but the sales tax portion is new. I want to know how this changes the fiscal note, because in the past the fiscal note was one of the concerns.

**Caleb Cage:**

I guess I am a little confused. The part I just went over is about property tax and GST tax abatements. Are you asking about the entire bill or the section I just went over?

**Assemblywoman Kirkpatrick:**

I am asking about the entire bill. If my question was premature, I am happy to wait. I just want to understand the overall fiscal note on the entire piece of the bill.

**Caleb Cage:**

The overall fiscal note provided by the Department of Taxation is about \$665,000 per year, if my memory serves me correctly, or \$1.33 million for the biennium, and that was based on the IU piece in particular. Essentially 3,701 veterans in the state have between a 60 and 90 percent disability rating from the VA, but their conditions due to their service-connected disability have them identified or rated as individually unemployable. Individually unemployable means that they would receive the full rating of 100 percent per federal guidelines, so this would just bring the state guidelines in line with that. Based on the 3,701 throughout the state, the Department of Taxation determines that to be about \$666,000 in those taxes on an annual basis. The numbers we received from cities, counties, and local governments throughout the state are much lower as well, with most of them reporting zero for the fiscal note.

**Assemblywoman Kirkpatrick:**

Mr. Cage, at one point, I think in another committee, we had a bill that would allow private sector employers to make veterans a priority [Assembly Bill 89; Assembly Committee on Commerce and Labor]. At that point I heard you say that is a new priority, and we are going to try to draw more veterans to Nevada. Do you think that number would change in the biennium, as opposed to what we are seeing today?

**Caleb Cage:**

To be clear, the vision of the overall initiative behind this is certainly to make Nevada the most military and veteran-friendly state in the nation, and as was pointed out in the last hearing, a lot of that hard work has been done here in the Legislature, and we are grateful for that.



Certainly certain cities in the state are highly attractive, and people land here by virtue of serving here, or not having a home because they have moved every three years, et cetera. We do not anticipate a major influx of new veterans based on that; however, like I said, it is a part of our vision to stand out, to be the state that is leading the way in that respect.

**Assemblywoman Benitez-Thompson:**

I have two questions. The first one is for you to clarify. The effective date on this is July 1, 2015. Will this be applicable to everyone who receives an IU rating after that date, or as of the July 1 date does everyone with an IU rating fall into this?

**Caleb Cage:**

The intention of this would be to make it so people who currently have an IU rating would receive the 100 percent disabled rate when it comes to GST or property tax.

**Assemblywoman Benitez-Thompson:**

The second question I had was when I read about the IU ratings in the Code of Federal Regulations (CFR), they talk a lot about vocational rehabilitation. It seems to me that rating has a lot to do with vocational rehabilitation. Could you talk to me more about how we reconciled this vocational rehabilitation with an unemployment definition? What does the federal term vocational rehabilitation mean and then what is the definition for state complete unemployment? Do you understand what I am asking?

**Caleb Cage:**

I think so, and if I do not explain it, just follow up.

The vocational rehabilitation program by the federal VA is a program that provides for educational assistance for veterans who have a disability that prevents them from working in their current field. I believe that is based on the terms "barrier to employment" or "substantial barrier to employment." Those are the two levels of disability that define access to that federal resource. This piece, the individual unemployability piece here in particular, was discussed in that chapter, but it is a part of the disability rating process, if you will.

To use an example, let us say I have a service-connected disability from a back injury that currently allows me to have a rating of 70 percent disability with the federal VA, but over time that back injury becomes more and more debilitating, to the point where the VA will not increase my level of disability, but they will recognize that the additional debilitating injuries related to my initial injury make it so I am unemployable at that point. Therefore, without changing my rating,

per schedule they recognize that I am 100 percent disabled by virtue of the IU program. So it is a way of recognizing a middle ground between no disability and disability, if that makes sense.

Sections 2 and 3 of this bill authorize financial institutions and other employers to deduct from the total amount of wages reported and upon which the payroll tax is imposed all wages paid to a newly hired full-time employee, if the employee is an unemployed veteran. If passed, Assembly Bill 89 would create the opportunity, as Assemblywoman Kirkpatrick pointed out earlier, for private sector employers to prefer to hire veterans, to make that a lawful hiring practice. Currently there is also a federal program that allows for tax credits to employers who hire veterans, called the VOW to Hire Heroes Act of 2011; however, there is no incentive at the state level. This would provide that incentive.

Essentially if a veteran meets certain conditions, including being eligible for unemployment insurance for the last six months, receiving unemployment insurance for the last six months, being unemployed, or being an honorably discharged veteran, they qualify. In order to incentivize a company to hire that veteran, a company would be able to deduct the full amount of their salary the first year, and half of their salary for the next two years.

The last is the survivors tax exemption. Currently *Nevada Revised Statutes* (NRS) 372.325 provides a state sales tax exemption for members of the Nevada National Guard who are on active service. In other words, if they are under deployment orders, their family members can request a letter from the Department of Taxation to exempt themselves from sales tax within the State of Nevada. This tax exemption is available on sales of tangible personal property to the deployed members of the National Guard, as long as they and their qualifying dependents are living at the same physical address, and that address is in Nevada.

Over the last decade of war, Nevada families have suffered deep loss when their loved ones have passed during wartime—they have become Gold Star families in military parlance. Commonly, surviving families suffer immediate and prolonged financial hardship. Death benefits, as well as those provided by organizations like the Nevada Military Support Alliance and others, help in the short term, especially during these very difficult times, to help provide funding so that family members can come in and provide support; however, there is a lack of support for the long term. Many families who suffer these tragedies find themselves having to sell their homes in order to downsize, to sell multiple vehicles and purchase new vehicles because their family structure has just been completely changed. These necessary life changes can happen suddenly,

forcing these immediate and costly purchases. Allowing surviving family members the same opportunity deployed service members and their families have would allow them an opportunity to navigate this incredibly difficult time by reducing some of the financial stress they are certain to encounter.

I am happy to answer any questions.

**Assemblyman Hickey:**

You moved rather quickly from talking about the sales tax exemptions for families with active service members in our National Guard, into the issue of death benefits. It seems to me those are two separate matters. Explain a little more to me why it is proposed to exempt National Guard members and their relatives from sales tax. I certainly understand they are in service to the state, and there are certain burdens placed upon them when they go in service and abroad, and probably take a decrease in pay from their regular profession. I assume that is the thinking behind it, but flesh that out a little bit more for me if you would.

**Caleb Cage:**

I do apologize for moving quickly through that. The proposal here is not to add that tax exemption to law. It currently exists in state law. National Guard members and their eligible family members can receive a letter from the Department of Taxation that exempts them from sales tax on tangible goods, and the argument for that is exactly what you just laid out. Oftentimes they will leave higher paying jobs to deploy in their nation's defense. The State of Nevada statute currently allows them an exemption from taxes during that time.

**Assemblywoman Bustamante Adams:**

I do appreciate you bringing this forth. I am married to a service-disabled veteran, so I appreciate the focus on veterans and their families.

There are other bills that we are proposing this session to assist veterans. I wanted to know where this bill falls in the priority list. We have the Northern Nevada Veterans Home Project, which is going to be millions of dollars, right? We have Assembly Bill 62, which gives employer preference for veterans. We have this bill, A.B. 71. We have Assembly Bill 76, relating to the education of veterans, something that I worked on with Assemblyman Elliott Anderson last year, to increase that. We have Assembly Bill 89, and we have Assembly Bill 103, for special license plates for veterans. So, out of all those bills, where does A.B. 71 fall in comparison?

Second, on page 205 [page 224, ([Exhibit C](#))] in the Tax Expenditure Report, there is a sales and use tax exemption for property sold to certain members of the Nevada National Guard. In 2014 it said that the number of individuals receiving the benefit was only four, and we enacted this in 2005. For those four individuals who benefited the cost is about \$8,700. My question is, how many veterans are going to take advantage of this abatement?

**Caleb Cage:**

Prioritization of this bill is difficult, as are all of these processes. I will say that if you look at the various reports that are provided here, the Governor has stated that his top Capital Improvement Program priority is the Northern Nevada Veterans Home. From the Veterans Legislative Symposium conducted in March 2014, the Northern Nevada Veterans Home is the veteran community's number one priority as well. Interestingly, the survivor's tax exemption, which is the third component of this bill, is the number two priority from the veteran community.

So I would say that those two are very high priorities for the veteran community, and I know that the Governor including them suggests they are high priorities for him as well. We do understand there are limits to resources, and we are just trying to make this a part of the discussion.

The veteran community responded to prioritization of the IU aspect of this bill by making it their 16th priority of 21. This bill has been brought for the last two sessions as well, so I know I can speak to their interest in that aspect.

The payroll tax exemption, just to put that in perspective here, is a part of the Interagency Council on Veterans Affairs Report. It is one of probably a dozen and a half recommendations specific to employment that came forward from the report. There is currently a federal program, the VOW to Hire Heroes Act of 2011, that does the same thing at the federal level, and we encourage that it be done at the state level. How this fits in with the other bills, I do not know. I know that these are priorities in the sense that they address the direct needs and prioritization of the veteran community, and the second aspect of this bill works to incentivize employers to hire veterans.

Regarding the Tax Expenditure Report question, and I do not have that in front of me, you stated that four were receiving the benefit at a total of \$8,700. I believe that this provision here would have, thankfully, a very low number of recipients, because it is for the immediate family members of fallen

service members in the Nevada National Guard. We could go back and count how many of the 56 fallen Nevadans represent members of the Nevada National Guard. I do not know that number off the top of my head. We could check to see how many have passed in the past three years, by July 1, 2015, and determine the numbers it would be available to.

I think that this extension of the current provision would be an extraordinarily small number, and we would all appreciate the fact that it is, because losing loved ones is what makes them eligible for this.

This just ties to the existing NRS 372.325, but it does not necessarily impact that in any significant way, in my opinion. If you are asking why that number is so low, that is something I have dealt with since working in the Lieutenant Governor's Office. About five years ago, when we started to get requests from service members out in the community saying certain retailers would not accept the tax exempt letter, we worked with the director of the Department of Taxation at the time in order to get some press around this. I think there is an education issue on the retailer's side. I think maybe some service members in the National Guard do not know this is available, and maybe some are not buying big ticket items where that abatement would be a huge value. That is just my gut reaction to that.

**Assemblywoman Benitez-Thompson:**

I have just a couple comments and a question. The first is for section 3, and it might actually be in section 2 as well. Talking about the exemption for full-time employees, my thought would be to give consideration to part-time employees too, especially if it is someone who has a pretty severe service-connected disability. Full-time work would be the gold standard, but I imagine for most of these people part-time work might be work that they are very happy and proud to take.

In section 5, page 9, I think as long as you are going to do this and talk about the tax exemption here, I would say that in subsection 3, paragraphs (a) and (b), I would open it up a little more. It says to be eligible you have to be within the first degree of consanguinity, and also to have resided in the same house. My thought is that if dad was overseas in the National Guard, and God forbid lost his life, but the children were living with their mom at a separate address, I would not want those children to be precluded from this. I think that if we leave it within the first degree of consanguinity then maybe we do not need to get much more into the weeds about where they live. I could see that as an unintended consequence.

Last, in section 6, page 9, you have in here the language that it would expire within three years after the death of the member. I am wondering why three years was chosen. Is that keeping it in line with federal policies?

**Caleb Cage:**

Thank you for those recommendations and your question. Regarding part-time employees, that is a great recommendation. We understand we are asking a lot with the tax exemptions and those things. We had to narrow the scope of it in order to make it as realistic as possible for passage, and that was the argument behind that. We will certainly consider that and see if we can make it work.

Second, I believe the purpose of residing in the same house or dwelling is that the language is in the statute that already exists, and so I would guess it is talking about, not an estranged family, but a nuclear family. We may want to change that to home of record, since the individual, even if deployed, would still have the same home of record. I could see some challenges with removing it, and I can see some challenges with leaving it in. I would certainly be happy to talk to Legal about how we might be able to address that concern.

Third, how did we derive the three-year date? This actually came to me when I was Director of Veteran Services for the state. An individual, who had recently lost her spouse, who was a National Guard member, proposed this. She actually suggested three years. She said she did not want it to be a benefit forever. She made the case that it was directly tied to her personal experience of having to sell most of everything, while receiving Servicemembers Group Life Insurance, pretty significant sums of money, and then having to buy new cars all at the same time. In a moment of great grief she might not have protected some of that money, although she was able to.

**Assemblywoman Benitez-Thompson:**

My thought would be that things are really fresh and new after three years. Why not even five? I would also say that just for section 5, I would not necessarily preclude them whether kids or families are estranged—the service member who had been deployed before that estrangement could have just come back from hardships that they faced when they came back to family life. I would not necessarily preclude them. I would say let us go ahead and support that family within the first degree of consanguinity regardless.

**Chairman Armstrong:**

This was not included in the Governor's recommendations, was it?

**Caleb Cage:**

No.

**Chairman Armstrong:**

After going through this bill with staff, we had a couple of amendments that we would like you to consider, to standardize the bill. The first one is in spite of differing language between NRS 361.091 and NRS 371.104, they both use the July to July calculation. We were just trying to make this standard, and see if you would be willing to amend section 4, subsection 10, to change it from December to July, so we could make that a standard calculation.

**Caleb Cage:**

Absolutely Mr. Chairman.

**Chairman Armstrong:**

The second standardization that we would like to see is in section 1, page 4, line 31 and in section 4, page 8, line 40 where you reference a Consumer Price Index (CPI) calculation, but it does not say which CPI. We just want to clarify this and indicate which CPI is being used, so it is not changed at some point.

**Caleb Cage:**

Of course; we will look into both of those. I do not see any problem with that at all.

**Chairman Armstrong:**

Are there any other questions? [There were none.] I would like to close the hearing portion and open it up for testimony. Those who would like to speak in support of A.B. 71 please come to the table.

**Darrol L. Brown, representing Carson Area Chapter 388, Vietnam Veterans of America:**

I am the legislative coordinator for Vietnam Veterans of America, Carson Area Chapter 388, and, as such, a member of the United Veterans Legislative Council, Northern Nevada. I am also a retired state director of Veterans Employment and Training Service, U.S. Department of Labor.

I come to you today to speak in favor of this bill. I was part of the United Veterans Legislative Council that met last year and prioritized all of these legislative bills, as Assemblywoman Bustamante Adams asked about. This is a very high priority to us, as all of them are; however, I have a reservation in this bill. It talks about Nevada National Guard. There are citizens of Nevada who are members of another state's National Guard. This bill, as it is read and as it is in statute, could provide a disadvantage to citizens of Nevada, who may be members of the United National Guard, the Arizona National Guard, or another state's National Guard.

I have talked to Mr. Cage about this, and what we could do is take out the word Nevada, and leave it as members of the National Guard residing in Nevada.

I am available for any questions the members might have.

**Chairman Armstrong:**

Are there any questions? [There were none.] Thank you for your testimony and thank you for your service, sir.

**Vicky Maltman, Private Citizen, Sun Valley, Nevada:**

Thank you for allowing me to testify today. My name is Vicky Maltman. I have been with my husband for 30-plus years. He is 100 percent service-connected disabled, but up until a couple of years ago he was 90 percent service-connected, with the 10 percent unemployability rating, and that did make a difference on our private property and vehicle taxes. Of course we are very grateful to the State of Nevada for allowing us to have that deduction, but what I have seen happen over the last couple of years is some of the members that have an unemployability and are at 70, 80, or 90 percent, lost some of those deductions because of the misunderstanding between unemployability at 100 percent and 100 percent service-connected.

My husband lost the use of his arm, and lost a portion of his lung and aorta when he was shot in Vietnam on Thanksgiving Day 1966. The fact that he can no longer work because of the injuries he received gave him the extra 10 percent, and I do not think he should be penalized for that. His compensation is based on what he can and cannot do, and the level of trauma that he was exposed to. I would encourage you to make this a more standardized deduction for our veterans to receive, for those who fought for our freedom and allow us to sit here today.

**Chairman Armstrong:**

Thank you for your husband's service. Is there anyone else speaking in support of A.B. 71? [There was no one.] Are there any neutral on A.B. 71?

**Jeffrey J. Frischmann, Chief, Unemployment Insurance Operations, Employment Security Division, Department of Employment, Training and Rehabilitation:**

I am the acting Employment Security Division Deputy Administrator for the Department of Employment, Training and Rehabilitation. To my right is Scott Kennedy, Employment Security Division Chief, Unemployment Insurance Support Services.



The Department of Employment, Training and Rehabilitation (DETR) is taking a neutral position on A.B. 71. After reaching out to Caleb Cage, we have agreed to work with Mr. Cage to better understand and evaluate the impacts of this bill on DETR. We will need to discuss specific language, to ensure that it does not conflict with NRS 612.265. We also need to further analyze this, to evaluate any fiscal impact. I would be happy to answer any questions.

**Chairman Armstrong:**

Are there any questions? [There were none.] Are there any others speaking neutral to A.B. 71? [There was no one.] Is anyone opposed to A.B. 71 who would like to speak? Seeing no one, I will close the hearing on A.B. 71. That completes our agenda. I will open it up for public comment. Seeing no one for public comment, I will close the public comments and we are adjourned [at 2:52 p.m.].

RESPECTFULLY SUBMITTED:

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Gina Hall  
Committee Secretary

APPROVED BY:

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Assemblyman Derek Armstrong, Chairman

DATE: \_\_\_\_\_

**EXHIBITS**

**Committee Name:** Committee on Taxation

**Date:** February 17, 2015

**Time of Meeting:** 1:33 p.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Deonne Contine, Department of Taxation	2013-2014 Tax Expenditure Report
A.B. 71	D	Caleb Cage, Office of the Governor	Prepared Testimony