

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

**Seventy-Ninth Session
March 2, 2017**

The Committee on Taxation was called to order by Chair Dina Neal at 4:06 p.m. on Thursday, March 2, 2017, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, 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/79th2017.

COMMITTEE MEMBERS PRESENT:

Assemblywoman Dina Neal, Chair
Assemblywoman Irene Bustamante Adams, Vice Chair
Assemblyman Paul Anderson
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Lesley E. Cohen
Assemblyman Edgar Flores
Assemblyman Jason Frierson
Assemblyman Al Kramer
Assemblyman Jim Marchant
Assemblyman Keith Pickard
Assemblywoman Ellen B. Spiegel

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

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



OTHERS PRESENT:

Barbara K. Cegavske, Secretary of State, Office of the Secretary of State
Scott W. Anderson, Chief Deputy, Office of the Secretary of State

Chair Neal:

[Roll was taken and Committee rules and protocol were reviewed.] On the agenda today we have one bill. I will open the hearing on Assembly Bill 44.

Assembly Bill 44: Requires the waiver of certain fees for certain veteran-owned businesses. (BDR 7-423)

Barbara K. Cegavske, Secretary of State, Office of the Secretary of State:

Assembly Bill 44 is a bill that seeks to aid Nevada's veterans who are trying to enter the state's workforce by starting their own business. This bill allows for the waiver of certain organizational and annual fees for domestic corporations, limited liability companies (LLCs), sole proprietorships, and partnerships. This program, which we currently call "Vets to Business," will encourage Nevada's veterans to create Nevada-based businesses and offer some relief as they enter Nevada's business community. I would now turn the time over to Chief Deputy Scott Anderson to further discuss the provisions of A.B. 44.

Scott W. Anderson, Chief Deputy, Office of the Secretary of State:

For the record, I am Scott Anderson, Chief Deputy Secretary of State. Also with us today is Kim Perondi, our Deputy Secretary for Commercial Recordings in the Office of the Secretary of State.

As Secretary of State Cegavske stated, A.B. 44 is our "Vets to Business" bill. This bill will allow the Secretary of State to waive the base organizational fees for articles of incorporation and articles of organization, the initial and annual list fees, and the state business license fees for four years, provided the requirements for a waiver continue to be met.

The waiver is intended for Nevada veterans of our uniformed services who have been honorably discharged and who desire to start a business in Nevada. This will assist them by waiving the basic fees to create or register a business with our office, eliminating that barrier. We have also limited the waiver to domestic corporations, LLCs, sole proprietorships, and partnerships, as these are the main business types a veteran may choose to begin business. The intent is also for a one-veteran, one-entity waiver. This is not intended for a Nevada veteran to create multiple entities, but it offers a place to start.

There are a number of issues surrounding the eligibility of veterans, including but not limited to the verification of veteran status and discharge, ownership verification, issues surrounding continued ownership and transfer of ownership, and continued validation of the requirements for this waiver. We are still reviewing the requirements and processes for verification necessary to allow the waiver and to prevent abuse. We expect these issues and

definitions of the requirements to be clarified in regulations that would come before the Legislative Commission for ultimate approval. Thank you for your consideration of A.B. 44. I would be happy to answer any questions you may have.

Assemblyman Kramer:

If I were a veteran and my wife is not, and I wanted to start a business, it sounds to me like that does not constitute 51 percent of the ownership interest as required in section 3, subsection 3 of the bill. Could you comment on that?

Scott Anderson:

It would depend on the entity type. This may be one of those areas that need to be further defined in regulation. As far as a sole proprietor business license is concerned, if a veteran had a sole proprietor license, his wife could be on that license as well. As for a corporate ownership or LLC ownership, we may have to define that further.

Assemblyman Kramer:

I assume someone who started a business last year would be included in this. We do not know how many businesses are started by veterans per year, so you really have no idea of what kind of fiscal impact this would have. That is a comment. I do not know the answer, so I will just leave it at that.

Assemblyman Pickard:

I want to follow up on that because I have a similar question. With respect to the number of entities, I would like to know how many veterans are anticipated to be taking advantage of this and how much we are talking about in abatements. My next question specifically has to do with determining percentage of ownership. In a partnership, it is assumed they are equal partners unless otherwise stated, so that should be pretty clear. In the case of a husband and wife with a 50-50 partnership, they do not meet the criteria. In a corporation in which stocks are actually issued, you have percentage of ownership defined there. In an LLC, in which the percentage of ownership is actually defined in an operating agreement which is not required to be filed, how would we ever know what the ownership interest is, or how would we enforce that? Has your office considered that?

Scott Anderson:

To start out, the husband and wife question is something new for us. This is something that had not been brought up, and I think this is something we could address in regulation. I do not think our intent is to prohibit a veteran who is going into business with his wife from doing so or from being able to have this waiver afforded to them. I believe this is something we can address because what we are doing here is trying to incentivize veterans to go into business—as a way to get into the workforce, as a way to get into business. As far as the number of entities, it is uncertain how many entities may be created and how many veterans may take advantage of this. We are hoping because of the one-entity, one-veteran type of process, it would keep multiple entities from being created by one veteran. That is not what this is intended to do. This is intended to allow a veteran who wants to get into business to

do so and to eliminate those barriers. We do have some information from our colleagues in West Virginia. In a little over 18 months, they had just over 500 veterans take advantage of this. It is uncertain whether those are multiple entities created by one or more veterans or if it is a one-veteran one-entity type of issue. We can check back on that. As far as the amount of the abatement and the effect, we consider this a net-zero effect. If we were not to give these waivers, it is more than likely that these veterans would not take advantage of this and would not start a business. Again, this would be for the base incorporation fee, the initial and annual list, and the state business license for the first four years.

Assemblyman Pickard:

I think that rather than net zero in terms of expense, I want to know what are the loss of the opportunity costs? What is the potential lost revenue? If we are talking about 500 businesses, and if the average entity starts at around \$500 as the Legislative Counsel's Digest for this bill suggests, then we are looking at about \$250,000. We are not talking a great deal of money here relative to what we generally receive on these.

I think the intent of this is certainly laudable, and there are a lot of good reasons why we want to incentivize veterans getting into business. They have a lot of skills that are directly relevant that we could put to use right away. This would put them in charge of their own destiny, and I really enjoy that thought.

My questions are really trying to uncover potential problems. I wonder if a series LLC would create some problems for your one-veteran, one-entity problem? What if a veteran wanted to get into property management and own property, and he sets up a series LLC with multiple homes. It sounds like he would only have one shot at that, which may be appropriate, but I do not know. As these thoughts are going through my head, in thinking about my experience in setting up LLCs, these are concerns I would want to think through before we finalize the legislation.

I believe most of the rules for establishing LLCs are in statute. Are you suggesting your regulations could supersede statute, or should we be looking at removing some of the specifics from statute, allowing the Secretary of State's Office to put that in regulation so we can more appropriately manage those instances?

Scott Anderson:

The intent of this bill is to get veterans into business. As far as a series LLC, it would depend on how it was set up. Again, it is the base fee. It would not be for multiple LLCs. It would be for a single LLC to allow them to get into business. As far as the question of whether we need to take anything out of statute, I do not think we need to take anything out of statute right now. Title 7 of *Nevada Revised Statutes* (NRS) has been pretty much standardized between corporations, LLCs, and other business entities regarding the processes and the requirements for those. This would strictly be putting the requirements for the waiver into regulation, such as what do we use for the validation? Do we use the DD Form 214 [Certificate of Release or Discharge from Active Duty]? If we do use that form, what information do we use and what do we redact? What information becomes public record?

There are a lot of idiosyncrasies around these qualifications that really would belong in regulation. I think it would be very difficult to put those qualifications into statute and maintain them, especially since we have never done this one before. This is a new waiver with new requirements, and there may need to be some changes. It may be a little more dynamic than a regular corporate type of filing.

Assemblyman Pickard:

I appreciate your answer. It is my understanding that the regulations, such as fees to be paid, cannot be contrary to the statute. I may be mistaken, but if you set up regulations that are contrary to the statute, then the statute still controls. We may be running into a potential conflict by setting up a set of regulations to allow for an abatement of these fees that would be contrary to statute. What might happen in the courts if someone challenged that?

Scott Anderson:

I do not think these would be contrary. I think they would just clarify what the waiver is. The waiver itself is going to be in statute. That is what this bill does. It allows for the waiver of those statutory fees. What would be in regulation would just be those requirements surrounding the waiver itself and if a veteran qualifies.

Assemblyman Flores:

Thank you for this bill. In other committees, we have had conversations about this, and I appreciate the intent of the bill. I want to understand the procedure and how it works. This is an opt-in situation. If I am a veteran, I would go to SilverFlume, apply for my license, and then indicate that I am a veteran. I see in the bill that "veteran" has the meaning ascribed to it in NRS 417.005. Is there a vetting process to ensure that the applicant is in fact a veteran, or is it sufficient for them to say they are a veteran, and you check through whatever information they provide to you if that is true and then we are done. I am confused about the vetting process.

Scott Anderson:

There would be a vetting process. There needs to be some sort of requirements around that waiver to eliminate the abuse. If we were to simply allow them to check a box that was an affidavit that they were a veteran, they were a Nevada resident, and their business was going to be in Nevada, there would be a lot of ineligible people checking those. That is what the regulations would basically be—the vetting process and putting those requirements into law through the regulation process. We would bring those to this body to ensure they were appropriate.

Assemblyman Flores:

Does the four-year exemption follow the veteran or follow the business? For example, I am a veteran and I open business A, then three years down the line it does not work out for whatever reason, so I open business B. Does that restart the exemption?

Scott Anderson:

The intent at this point is that it follows the entity. We are giving the veteran the opportunity to open a business. It may be successful, it may not be. I think it could be problematic having numerous entities filed by the same veteran. This is really intended to give them the opportunity to get into business.

Assemblywoman Cohen:

I think Assemblyman Pickard's usage of the word "laudable" is the appropriate term here. I am concerned that we are possibly setting up veterans for failure. As you stated, and I do not want to misstate how you said this, some veterans are only going to be able to get into business because we are waiving these fees that range between \$425 to \$725 in the first year. Business takes capital, and a huge number of small businesses fail within the first year. If these businesses do not have enough capital on hand to weather the storms of the first year, how are we going to make sure these businesses are going to be successful? I know it is not our responsibility to hold their hands, but I do not think we are necessarily helping a small business person if we are setting them up for failure. Are there any programs we are pointing these people toward to help them along the way?

Scott Anderson:

For the veterans that are going into business, there is still work they are going to have to do when preparing to do business. There is some homework they are going to have to do. I appreciate your comment asking if there was somewhere we can point them. Generally the Secretary of State's Office does not do a lot of pointing businesses to where they need to go so that they can be successful. We do some work with the Nevada Small Business Development Center and the Department of Business and Industry; however, our processes are to get these on file and have record. I do think there are some things we could look into as far as pointing veterans—and other businesses—to agencies and organizations that can help them.

Assemblywoman Cohen:

You mentioned some statistics from West Virginia. I believe you said it was 18 months. Do you know the statistics on those businesses, how they are doing after the 18 months, and how many of those businesses have failed to date?

Scott Anderson:

We do not have that information. We can get that.

Assemblywoman Cohen:

Thank you. I would appreciate seeing that.

Assemblywoman Spiegel:

Thank you very much for bringing the bill. I think it is good to be helping our veterans. Was any consideration given to including benefit corporations in the bill? There are a number of times when veterans want to be doing things that will help other veterans,

and I think we passed benefit corporations two sessions ago [Assembly Bill 89 of the 77th Session]. I could see somebody wanting to form a benefit corporation where part of the proceeds really go to support veteran services.

Scott Anderson:

I do not see anything in this bill that would prohibit a benefit corporation from being formed. If there is, then we will take a look at it. Again, this bill is to allow veterans to get into the basic forms of business that a new business would more than likely go into. Our main businesses are for-profit corporations, LLCs, sole proprietors, and partnerships.

Assemblywoman Spiegel:

Benefit corporations are not necessarily considered a for-profit corporation. Their articles of incorporation say they can designate a benefit, so they are not always just looking for the ultimate profit margin, but also to be providing the benefit. On page 6, lines 32 through 36 of A.B. 44, talk about the types of businesses. I could see maybe expanding this part of the bills to also include a benefit corporation. There could be other places in the bill as well, but that was a place that stood out to me—the types of corporations.

Scott Anderson:

We will check on this to see if a benefit corporation would not fall under that. Our understanding, and from our processes in the Secretary of State's Office, a benefit corporation is still a for-profit corporation. It is just that it has other purposes. These could be charitable purposes or environmental purposes, but they are still a for-profit corporation. It is just that it puts their shareholders on notice that there is this other benefit that does not go to them, but to this other cause.

Assemblywoman Spiegel:

Are widows and widowers of military personnel killed in action considered for this as well?

Scott Anderson:

In this bill, they are not. However, that is definitely something for consideration we could discuss with the Secretary of State. We may be able to add something like that to the bill. It has not been discussed as a matter of policy for this bill itself.

Assemblyman Marchant:

One of my original bill draft requests was exactly this, and when I heard your office was doing it, I pulled mine. Do you have the capability of possibly including local business licenses—like for Las Vegas, Henderson, Reno—to maybe exempt them too?

Scott Anderson:

We did not. We left the fees and processes within the Secretary of State's Office. We have no control over the business license fees for other local jurisdictions, and we have not discussed this with other local jurisdictions. This was a project through the Secretary of State's Office to get those businesses started. Once they get started and filed with us, then they go to the local jurisdictions for their licensing.

Barbara Cegavske:

I want to thank the Committee. I am thrilled to be listening to the comments and the questions you are bringing forward to us. I wish we would have had the forethought to bring you all together before because these questions are really good. We will take everything back and look at whatever the Committee would desire to have added.

Assemblyman Frierson:

I wanted to make an observation in light of a couple of the questions about verification. In recent years, we have passed some stolen-valor measures, so I would be hard-pressed to find somebody who would go down to the state building to claim they were a veteran at this point, but I am glad we have that in place. I think there was a line of questioning about verification, and this question is associated with cost. Would you have to change the form to have a place to check a box, or how would you intend a business owner to indicate they would qualify for having this waiver?

Scott Anderson:

The intent is to have documentation provided to us, so it is not simply to just a checkbox. Now there may be a check box put on one or all of our forms eligible for this waiver, but there would be a verification of that through possibly the DD Form 214, some sort of validation that they are Nevada residents, and possibly an affidavit that they are going to conduct their business in Nevada.

Assemblyman Frierson:

The first part of the bill deals mostly with the initial fees, and there is a section that deals with the annual fee for the first four years. I am not entirely sure how that works. Would there be an annual verification of it? There was a question earlier about if this follows the business or follows the veteran. In the first four years, would there be an annual verification of status to ensure they did not sell the business to someone else who is not a veteran and would for the following three years benefit from that? Is that something that was contemplated?

Scott Anderson:

We have contemplated that, and there would be some verification and validation on an annual basis. We want to make sure that entity continues to be veteran-owned. It would not necessarily be the validation of the veteran's status because that should not change. However, the ownership could change and that would be something we would want to validate on a regular basis. Again, some of these requirements we have not totally vetted out. We want to do that through the regulation process.

Assemblywoman Bustamante Adams:

As a military spouse, I want to thank Madam Secretary and her team for concentrating on veterans. My focus is on small businesses, so I think that veterans would fall under that. I would not find in the bill where you mentioned "entity per person." Can you point me to the section where that is referenced?

Scott Anderson:

That is not specifically in the bill. This is a requirement we define through the regulation process. There may be some factors, such as two or more veterans entering into a partnership or the husband and wife question, that are not specifically mentioned in the bill but would be part of the requirements we would do through the regulation process.

Assemblywoman Bustamante Adams:

Many small businesses have barriers to entry. Did your office do a survey? I know that access to capital may be a barrier. Was there some kind of work done before to understand that this would be their number one request and that this would help them to get into business ownership?

Scott Anderson:

There was some discussion with our colleagues in West Virginia. We met with representatives from veterans groups. We discussed this with them, and they felt it was a great idea that has the ability to get veterans into business. We had not discussed making them successful in business or how we could help them to keep that business going. We had discussed with some groups that this was a good idea and was something that would be beneficial to their constituents. I apologize for not having the names of these organizations.

Assemblyman Paul Anderson:

Is there demand for this? Have we seen that this \$200 has been a barrier to entering and starting a business? Certainly there are a lot of other fees and a lot of other things that come about when you are starting a business, and if this \$200 fee is the brake as to whether or not I can start a business, I am not sure if it is going to be very helpful if that is all we are doing for them. Is there any local demand saying, I would have started a business, but this fee was too egregious for me to get going?

Scott Anderson:

The \$200 fee is strictly the state business license fee for a sole proprietor. The waiver would also include the incorporating fees, the annual list fees, and the articles of organization for corporations and LLCs, so it could be substantially greater than just the \$200. This would be \$200-plus per year for the four years. We have not had any specific comments that this is a barrier for them to enter. However, with our conversations with the registered agent community, Nevada's fee structure in general could be a barrier to entry into business in Nevada. Because of this barrier, we see states such as Wyoming benefiting from our current fee structure. What we are doing here is allowing those Nevada veterans who are in Nevada to have some sort of break. There is much validity in the comment that if you cannot afford to pay the fees, then you might not want to be in business; however, this does give some level of relief to our veterans.

Assemblywoman Benitez-Thompson:

I want to make sure I am reading this right because I am not great with math. Throughout the sections, you reference one of the qualifications as at least 51 percent of the ownership interest is held by one or more, not 100 percent owner interest by one, but of the 51 percent ownership there must be one?

Scott Anderson:

Of the 51 percent there must be at least one veteran. It could be more than one veteran owning that 51 percent. For example, if a veteran wants to go into business with a brother or a friend or another business partner, a majority must be owned by a veteran or veterans.

Assemblywoman Benitez-Thompson:

To make sure we are capturing the intent right, in Chapter 89 of NRS under a professional association that comes together, I will pick one at random: three interior designers. We do not need two of the three to be owners to get us over 51 percent of the three, a majority or one and a half would have to be the ownership. Is that what you mean? Could you clarify the intent for the record? It is a majority of the whole, not a majority of 51 percent ownership.

Scott Anderson:

That is correct, it would be 51 percent of the ownership as a whole.

Chair Neal:

You have an unknown number of veterans who could apply for this license. What are the conversations you are having with the Department of Veterans Services? We have had a series of conversations with them, and they are just now getting to the point of trying to collect data in their system to verify who is and is not a veteran. Could you give us more background on those conversations?

Scott Anderson:

We have not actually had any discussions with the Department of Veterans Services, and that is a very good point. We have spoken with several veterans groups and representatives of these groups. That is an excellent point, and I may be doing that tomorrow.

Chair Neal:

You mentioned earlier in your testimony that there was zero impact. When I first saw this bill, the first thing that came to my mind was that we passed the commerce tax in 2015 [Senate Bill 483 of the 78th Session] with the goal of capturing those fees. Now we are considering this group, and there is an impact when you combine the fees of roughly \$600 to \$700. Have you done any projections on what the impact would be if this came to fruition because this is a four-year holiday? What is the impact?

Scott Anderson:

Again, we have no idea of how many veterans may take advantage of this. If they are not doing business now, we are not getting that revenue. However, once they do get into business, the overall fee impact would be \$2,675 over the four years for a corporation, \$1,475 for an LLC, and \$800 for a sole proprietorship. If those business entities were going to go into business regardless of whether they are veterans or not, then there may be an impact. If they were not, then we would not have been getting those fees anyway.

Chair Neal:

What if they are already in business? Will they be able to go back and retroactively change their status and then apply under this measure?

Scott Anderson:

That is not the intent of the bill at this point. It was for starting a new business and then going forward from the start of that new business. Again, as the Secretary stated, if these are things the Committee wants us to consider, we would be happy to take a look at those and discuss them as part of the bill.

Chair Neal:

We will ask those in support of A.B. 44 to the table. Seeing no one, I will ask anyone who is neutral on A.B. 44 to the table. Seeing no one, I will ask anyone speaking in opposition to A.B. 44 to the table. [There was no one.] Do the members have any further questions? [There were none.] Mr. Anderson, do you have any final comments?

Scott Anderson:

I would like to turn it back over to the Secretary of State down in Las Vegas for any final comments. For myself, thank you very much for the opportunity to present this today, and thank you very much for your comments.

Barbara Cegavske:

We are very excited to have put this together and appreciate the comments you have made today. Since we have been talking about this, I have had the pleasure to be at some of the veterans events throughout the state and have talked to some of the administrators. They are very excited about this proposal. I apologize for not telling Scott this.

Again, we have not asked for any numbers, but we did actually borrow this idea from West Virginia. We talked to their Secretary of State, and they have been very excited about it. There is a program that MGM Resorts International is doing called "Boots to Business." We would like to collaborate more with them to see if we can do this more along the lines of what they are doing through the MGM. We are very anxious to move forward and work with you on the suggestions you brought to us today.

Chair Neal:

We are going to close the hearing on A.B. 44. I will open the hearing for public comment. [There was none.] There being no further business, we are adjourned [at 4:52 p.m.].

RESPECTFULLY SUBMITTED:

Gina Hall
Committee Secretary

APPROVED BY:

Assemblywoman Dina Neal, Chair

DATE: _____

EXHIBITS

[Exhibit A](#) is the Agenda.

[Exhibit B](#) is the Attendance Roster.