Analysis of Fiscal Policy in Nevada

Section 8: Other Observations and Recommendations

Governor's Task Force on Tax Policy in Nevada

November 15, 2002

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Other Observations and Recommendations

Introduction

Beyond those recommendations described in Section 7, the Task Force identified several issues and topics that it believes deserve added emphasis and attention. Each of these topics will be discussed in added detail in the pages that follow. These include the following:

- A reiteration of the importance of addressing the narrowness of the State's sales and use tax base. This is for the dual purpose of enhancing stability and, potentially, raising additional revenue. This discussion will also include the concept of lowering the State's sales tax rates (or other forms of taxation) as the base is broadened.

- A discussion of the potential use of a lottery as a longer-term funding source for State programs. While it was clearly understood that a lottery would require a Constitutional amendment and, thus, would take several years to implement, this source was accepted as a potential component of a long-term funding plan.

- Emphasis upon the importance of insuring accountability for the expenditure of both existing and recommended revenue sources. Coupled with this is an understanding that the balancing of the State's fiscal equation has two elements; funding State programs and insuring that the programs that are funded are effectively and efficiently meeting the public's wants and needs.

- The potential for an increased share of federal funds as a source of mitigation for a portion of the State's funding challenges.

- The impact that changes in technology has upon the performance of Nevada's tax structure. This includes recognition that there is an evolving shift from goods to services (affecting the sales and use tax base), and a shift toward technologies that rely less upon physical/taxable assets (affecting property tax). Examples in the latter category include the shift toward wireless technologies (i.e., telecommunications, satellite broadcasts, etc). Another aspect of this issue is the increased use of the Internet to purchase goods and services, which leads to an avoidance of taxes normally levied upon retail sales.

- The interplay between State and local revenues as a potential solution to funding challenges. This involves the potential shifting of revenue or expenditures between units of government to achieve a better balance. This discussion will also include the impact of unfunded mandates. As services are "turned back" by the federal government to the states, or by the states to local (county) governments, rarely are the resources to fund the assumption of service delivery requirements included. This, clearly, creates added fiscal stress for the unit of government that is left to assume the mandated services.

- A discussion of the effects upon economic development arising from the implementation of any new sources of taxation. This is as much an issue of the effectiveness of Nevada's current commitment to economic development as it is a prospective issue.

- The issue of fees and charges collected by State agencies and, specifically, whether consideration should be given to adjusting current fee schedules.

- The impact of not indexing of State tax rates and fees has upon longer-term revenue versus expenditure relationships. This focuses upon those tax rates and fees that are fixed unitary rates that do not change over time without Legislative intervention, and the loss of value, over time, of these revenue sources.

- The critical need to address the funding needs of the State's revenue collection and enforcement functions. It is questionable whether these functions, with the demands currently placed upon them, are appropriately funded – both from an information technology and human resources perspective. If additional demands are placed upon the revenue collection and enforcement functions of the State, enhancement of these programs should be a top priority. To the extent that this is not addressed sooner than later, there will be a significant opportunity cost of foregone revenue.

- A discussion of potential points of consideration for the definition of "qualified Nevada employee," as used within the Task Force recommendation regarding the state activity tax. While the Task Force defined a qualified Nevada employee as one for whom the State's business license tax was paid in the preceding quarter, there are other elements that the Legislature may wish to consider as additions to this definition.

- A reference to the materials and testimony received by the Task Force as a result of the extensive solicitation process used to encourage the submission of data. While the Task Force did not attempt to validate the material received, and in some cases disagreed with the conclusions drawn by some of the material, it still is of potential value to the reader and is, thus, included within the appendix of this report.

- An observation that the process that has commenced through ACR 1 and the efforts of the Task Force is an ongoing process, which may justify the continuation of a similar effort to monitor implementation.

State Sales And Use Tax Base

The State of Nevada receives approximately 37 percent of its total revenue from a 2 percent levy upon the retail sale of tangible personal property and a use tax that is charged on property purchased outside of Nevada and brought into the State for use. The State also receives direct budgetary relief from the application of an additional 2 ¼ percent levy upon retail sales that is levied in support of schools. Likewise, local governments are heavily reliant upon sales and use tax levies of 2 ¼ percent to fund their programs. Special option taxes on retail sales also exist for a range of local programs, including flood control, mass transit, tourism, and capital projects. Governments of nearly every type and size have come to depend very heavily upon sales tax as a funding source – in many cases, the largest single funding source – for their programs.

Like all other sources of funding, sales tax revenues are a function of both the rate of the levy and the base over which the levy is applied. Too often, when being evaluated, one side of the equation is neglected in favor of the other, which can be quite misleading. In short, the sales and use tax is more often viewed from the standpoint of rate, with little attention being given to the base.

Nevada's combined sales and use tax rates are generally representative of rates in other states. However, the base over which sales tax rates are applied in Nevada compares rather poorly from the standpoint of breadth to the bases used in other states. Worded differently, Nevada has a comparatively narrower sales tax base than other states. In fact, Nevada's sales and use tax base is among the narrowest in the country. First, it should be pointed out, Nevada only applies the levy to retail sale of tangible personal property. As such, to be taxable, the sale must a) be at the retail level, b) must be tangible, and c) must be personal property. If it doesn't meet these three tests, it is not taxed and is implicitly exempt. By way of example, services, which are neither tangible nor personal property, are implicitly exempt from taxation.

When noting the narrowness of Nevada's sales and use tax base, it should also be mentioned that the regressivity of Nevada's sales tax regime is comparatively less than sales taxes applied in other states. Nevada's lower degree of regressivity is directly related to the narrowness of the base.

Next, the existence of a broad array of explicit exemptions, and their impact upon the sales and use tax base, must be considered. Nevada has had a rich history of providing relief to, or support of, various social matters through the use of sales and use tax exemptions. In fact, there are dozens upon dozens of exemptions from the application of the sales and use tax found throughout the Nevada Revised Statutes. These codified exemptions include food purchased from grocery stores, prescription drugs, prosthetic devices, etc. The list of explicit exemptions has grown over time, with new exemptions arising for consideration at nearly every legislative session.

Considering both the implicit and explicit exemptions, Nevada has, by both the initial design of the sales and use tax base and by the modifications made since, allowed for a shrinking of the sales tax base over time. If the impact of Internet sales is added to the mix, then one could say that the Nevada sales and use tax base is shrinking due to both internal and external factors. The internal factors are those under Nevada's control (i.e., the proliferation of exemptions from the tax), while the external factors are those that are not within Nevada's control (i.e., the national economy and the moratorium on taxing Internet sales). The design of Nevada's sales and use tax base was purposely narrow, and has been made narrower over time both from within and without. Because of this, Nevada's base is far more susceptible to external factors than the more broadly applied bases in other states.

An additional consequence of our narrow sales tax base is that we have become heavily reliant upon certain areas of trade, which form the basis of eligible or taxable transactions, performing well from year to year. For example, due to the implicit and explicit exemptions, Nevada's sales tax base relies very heavily upon the construction sector of our economy to remain robust from year to year. As much as 15 percent of the sales tax base in Nevada is linked to construction activity. Since construction can be influenced heavily by a variety of factors, this is not a very firm foundation upon which to build reliance. The same can be said of other areas of trade that have come to dominate Nevada's sales and use tax base, including the sale of new and used cars, and food purchased for immediate consumption. This has led to a tax base that will continue to prove to be less stable as a result of its heavy reliance upon certain areas of trade and impacts attributable to changes in the economy.

There are those who would say that the revenue growth numbers for sales and use tax revenue do not support the contention that there are problems with the tax base. In fact, the tremendous increase in the volume of transactions arising from the tremendous growth in the State has provided for some significant revenue increases. While we note that inflation adjusted taxable retail sales per capita have declined in four of the last six fiscal years, the impact of the erosion of the sales and use tax base is more evolutionary than immediate. There is no question that potential tax dollars have been "lost" as a consequence of the narrowness of Nevada's tax base, as there is no question that millions of dollars that once came from traditional purchases are now being lost due to increasing e-commerce on the Internet. Simply put, Nevada is, by both design and environment, destined to feel the pinch caused by its extremely narrow sales and use tax base.

In consideration of the foregoing, the Task Force spent considerable time discussing the problems related to the narrowing of the transaction base for the application of sales and use tax, and generally agreed that it is a problem deserving of added scrutiny. This may be somewhat of an understatement, as certain members of the Task Force exhibited extremely strong views about the immediacy of this problem. Nonetheless, the Task Force has recommended that this topic receive specific focus for study - as a current problem that needs a current solution. The Task Force further indicated that it would be willing to conduct that study. However, given the deadlines included within ACR 1, the Task Force recognizes that it would need to be formally reauthorized to do so.

Broadening the State's sales tax base is unquestionably part of the solution to the problems that gave rise to ACR 1. Spirited debates over how to broaden the tax base will take place, but the importance of doing so will hopefully take precedence over the dialogue. Recognition of the importance of this issue is noted in Section 7 of this report; wherein a recommendation to incorporate a transaction tax into the mix of solutions was included. The Admissions and Amusement Tax ("ATT") recommendation is founded upon the understanding that the transaction-based portion of the State's overall revenue mix has weakened.

The broadening of the sales and use tax base can be viewed as having dual benefits. The one that has received the most focus in this section has to do with a broadening of the base leading to greater stability in the long run. However, it should also be pointed out that a broadening of the base could also lead to significant revenue enhancement. For example, a tax rate of one percent applied to the areas of business activity that are currently not subject to the sales and use tax could produce as much as $200 million in near-term revenue.

It should be added here that the concept of broadening the sales tax base affects several related matters. By way of example, the concept of broadening the tax base, and adjusting (downward) the existing tax rates, is very much a part of this discussion. Theoretically, the base can be broadened and the rates reduced while still generating an amount of revenue equivalent to what is earned today. This is a simple algebraic exercise. However, when consideration is given to the rigid manner in which the component units of the overall sales and use tax rates are constructed, along with the fact that these revenues have been commonly used as security for debt, the ease of the algebra falls away. This is not an insurmountable issue, but it is far more complicated than is often realized. For example, there exist questions regarding how the State's portion of the sales tax rate could be broadened to areas of trade that are not currently taxed without creating a constitutional issue. Whether a broadening of the base should be accomplished via extension of the existing sales tax system, or through the use of a transaction tax approach must also be weighed. Further, there are questions relating to the various component units of the sales and use tax rate, and how each might be impacted if rates were to be compressed. Perhaps it could best be described as a matter of evolving away from past practice while consciously, and with commitment, evolving toward better, more thoughtful practices.

The concept of the "desirability" of reducing the current sales and use tax rates "over time as new tax revenues become available" was specifically noted in ACR 1. This concept can be further explored as decisions regarding new revenue sources are made. It is clear, however, that potential reductions in any component of the sales and use tax rates should only be linked to an expansion of the base over which they are applied, or to the imposition of a new revenue source that is more stable than the sales and use tax. To take any other course would fail to add stability to the bottom line for the State.

There are other legal and procedural issues that will have to be addressed as this matter evolves. These, too, are not insurmountable, and depend greatly upon the manner in which the sales and use tax base is broadened.

If the time had allowed for this issue to be more fully explored during the eleven short months of Task Force work, it is very possible that it would have been developed into a viable alternative or supplemental recommendation to those made herein. In fact, there was a substantial amount of analytical work done in support of this concept. However, given the overall complexity of this issue, further work needs to be done. Thus, the Task Force recommends that this matter receive immediate attention as an area of further study and development, and the Task Force expresses a willingness to conduct, or participate in, that study.

State Lottery

Many people believe that the implementation of a State lottery would solve the State's fiscal problems. While this is far from true, a State lottery could prove to be a component of a balanced funding strategy in the future.

Our analysis indicates that a lottery could produce approximately $40 million to $70 million in net revenue annually. However, it must be noted that these are very rough estimates based upon the experience of other states where conditions are quite dissimilar to those in Nevada. Further, there is very little central tendency among those states that have chosen a lottery as a funding source. Nonetheless, it is clear that a lottery is not a panacea for the fiscal issues facing the State.

The more significant issue that distinguishes the use of a lottery from the other recommendations included in this report is that it would require several years to implement due to the need to amend the State's Constitution to permit a lottery. Thus, it is generally believed that it could take approximately five years to enact (if it can be presumed that it is the will of the electorate to do so). This fact alone eliminates a lottery from being a part of any near-term solution to the State's funding challenges. That said, a lottery should not be eliminated from consideration as a supplement to the recommendations included herein on a longer-term basis.

The Task Force recommends that the Legislature give consideration to further studying the potential for a lottery to be a part of an overall, longer-term funding strategy for the State.

Expenditure Accountability

Largely arising from the wording of ACR 1, several people assumed that the work of the Task Force had some sort of pre-determined outcome. Nothing can be further from the truth. In fact, no discussions regarding potential solutions were seriously undertaken until the existence of a funding gap had been established. In other words, there was no predisposition to solve a problem until it was clearly and convincingly established that a problem, in fact, exists. The existence of a problem, under the set of assumptions used during the course of the Task Force's work, was clearly demonstrated.

It should be understood, however, that once a problem had been identified and quantified, ACR 1 directed that the work of the Task Force be concentrated on the revenue side of the equation. This is not a weakness of ACR 1. Rather, it is a presumption on the part of

ACR 1 that current service levels are eroding and will, in the very near future, be inadequate. Many would argue that service levels are already inadequate.

Since the Task Force was under direction to "develop one or more definitive proposals to carry out the state's need to provide additional revenue for state programs, to stabilize the tax base and to reduce the long-term structural deficit of the state budget," focus was appropriately placed upon fulfilling the mandate of the legislation. With the filing of this report, the Task Force has satisfied that mandate.

In accordance with the mandate, the Task Force did not focus upon the expenditure side of the State's budget. The Task Force used the cost of existing services that the State provides to its citizens as a focal point of its analysis, viewing current service levels to be, at minimum, a constant going forward into the future. Even though the Task Force would staunchly defend this approach as being the most appropriate, there will be those who will view the funding needs that were projected to either be an overstatement of need or an understatement of need. The fact that this type of debate will ensue is not viewed as a problem, but rather as a part of a healthy process that must occur to get to the final level of solution.

The Task Force recommends that the State consider the returns that it expects to receive for each public dollar invested, whether from new or existing sources, and that it move toward a system that places an enhanced level of importance upon accountability for the highest and best use of public funds. The State may wish to consider the creation of a permanent citizen task force or commission to monitor government efficiency and to insure that sound business practices are being employed.

Federal Funds

The Task Force noted, during its research, that Nevada ranked extremely low during the late 1990's in comparative receipt of federal funds per capita. Perhaps the best explanation that was identified for this low ranking was that Nevada's population was severely undercounted during the 1990 census, and over the decade that followed the undercount, was the fastest growing state in the nation. In other words, Nevada was dramatically undercounted, moved away from the undercounted value faster than any other state in the nation, and, thus, was more adversely affected than any other state. As population is a principal determinant in the allocation of federal funds, there is no question that Nevada was significantly and adversely affected by the undercount.

Notwithstanding the above, there are also reasons to question the level of emphasis placed upon securing federal funds by units of government throughout the State. Suffice it to say that an increased receipt of federal funds would not be a panacea for the state's general fund stresses. However, it could relieve some funding pressures for some State and local programs. As a result, the Task Force recommends that the federal funds acquisition process be examined to determine whether an appropriate level of attention is being given to this very important function. The State may wish to consider combining efforts with local school districts and county governments in creating a centralized grants acquisition function, thus reducing the cost to each individual unit of government and allowing for a concentrated effort to be given to the task.

It should be added that the Task Force did recognize that federal funds related to any form of mitigation for impacts caused by the storage of high-level nuclear waste may be an issue in the future. However, given the State's position on the issue and the uncertainty associated with quantifying any form of mitigation, no assumptions regarding receipt of federal funds were made for modeling purposes. Should federal funds materialize in the future, the State may well want to re-examine its revenue status and make any appropriate adjustments to its tax system.

Impact Of Technological Advancements Upon Nevada's Tax System

Nevada is not alone in its susceptibility to changes in technology affecting the performance of its tax system. Examples of this include shifts away from hard asset based technologies toward those that rely less upon physical assets located specifically within the traditional boundaries of a taxing entity. A more specific example of this trend includes the movement toward wireless versus hardwire communications, including both telecommunications and broadcast services.

Using broadcast services as an example, the shift from a technology that previously relied upon hard assets that were physically located within specific taxing jurisdictions (i.e., cable) toward a technology that more generally relies upon airspace (i.e., satellite) has created some challenges for taxing authorities. When assets are specifically located within a jurisdiction, the value of the assets can be appraised, apportioned and taxed, with the proceeds of the tax being returned to the entities in which the assets are located. When this is less the case, the application of traditional taxing methods may become less effective. In this example, both the application of property tax and franchise tax may be at issue.

More importantly, the difficulty in assessing taxes upon providers of similar services that use different technologies to provide the service can lead to serious questions of fairness in the application and impact of taxation. This, in turn, can lead to issues of uniformity and equity of taxation within similar industries. Such a situation was raised during the deliberations of the Task Force, where it was noted that providers of cable television services are assessed a five percent franchise tax upon the billed charges to customers, which is in turn is passed through to their customers. Providers of satellite broadcast services, who are direct competitors to cable providers, are not assessed the franchise tax (and, thus, do not have a need to pass the cost of the assessment along to customers). As a result, pricing to customers of cable versus satellite systems can be impacted, creating concerns as to whether the tax system favors one type of provider versus another.

The Task Force did not recommend a particular remedy for the example noted above, but did express concern that continued changes in technology will inevitably lead to more and more similar situations in the future. The Task Force believes that a very high premium should be placed upon fairness and equity of taxation, and that no competitive advantage should be created for providers of similar goods and services within a similar industry. Thus, the Task Force recommends that the situation noted above be addressed by the Legislature. Further, it is recommended that the Legislature review the tax policies of the State to determine whether other potential inequities, caused by shifts in technology, exist.

It should be added in this section that there is another technologically driven impact upon taxation that should be watched very closely; that being the impact of Internet sales upon the retail sales and use tax base. This has been discussed previously, and that discussion will not be repeated here. However, suffice it to say that the amount of sales and use tax revenue that is lost to Internet sales is growing rapidly each year. The Legislature is well advised to monitor the progress of this issue at the federal level, and be positioned to respond as soon as federal restrictions are lifted.

State And Local Revenue Issues / Unfunded Mandates

ACR 1 is clearly focused upon funding issues facing the State of Nevada, including the funding of K-12 education and long-term care which are both responsibilities of the State. Local government services and funding sources are not alluded to in ACR 1, as it appears that the separation between State and local government and responsibilities is recognized.

That said, there is potential interplay between the State and those entities (i.e., counties, cities and special units of government) that are creatures of the State. Most often, this interplay presents itself in the area of service delivery. Over the years, the State and county governments have engaged in discussions regarding which unit of government is better positioned to provide certain services to the public, most often within the category of health and human services functions. These discussions have resulted in service shifts between the State and counties, in each direction.

Oftentimes, when services are shifted from the State to counties, the issue of unfunded mandates arises. An unfunded mandate occurs when service delivery requirements are shifted from the State to counties, with no accompanying funding to pay for the service. Unfunded mandates can also occur when the federal government places requirements upon the states without providing the means to accomplish the mandate.

It should be emphasized that counties are the last line of service delivery in the governmental chain. The federal government can pass service requirements along to states, and states can pass them along to counties. Counties cannot pass them along to any other governmental unit, thus they end up absorbing the net effect of service "turn backs."

As a state attempts to right itself financially, it is not uncommon for turn backs to be used to balance the equation at the state level. This more commonly precedes the raising of additional tax dollars due to comparative political palatability. In the case of Nevada's current fiscal situation, it is fair to assume that service turn backs will be considered as a part of the balancing mechanism. If that becomes a part of the final solution, and there are additional unfunded mandates to be absorbed by county governments (beyond those already absorbed over the years), the impact upon the counties could be extreme.

One additional concept that was discussed by the Task Force was the notion of using local government revenue to, in part, bolster the State's revenue. This is tantamount to shifting the revenue problem from the State to the county/local government level, where less sovereignty exists to mitigate the impact.

The concept that was discussed was based upon setting up what may be best described as a "tax increment" approach to dealing with future revenue growth arising from property tax. This concept would have the State benefiting from future growth in the assessed valuation, above current levels, which is what establishes the increment. To the increment, the overlapping tax rates in each jurisdiction would be applied (less the tax rate components associated with school operations and State and local debt service) to produce the incremental growth in property tax dollars. All or part of this revenue increment would then be made available to the State to fund State programs. As is the case with other tax increment approaches, the revenue stream grows rapidly over time and is capable of producing large and growing sums of revenue. However, as is also the case with other applications of tax increments, it does not create new tax dollars; it only reallocates existing tax dollars. In this case, the tax dollars are reallocated from county/local governments to the State.

The Task Force expressed concern regarding the tax increment concept, because it shifts a funding problem from the State to county/local governments. County and local governments have already absorbed an array of unfunded mandates over the years, and may well not be positioned to absorb further hits. In addition, it was recognized that county and local governments are those that bear the brunt of providing front-line services to the areas where growth is occurring. To remove the primary source of growth-driven revenue from those entities that are tasked with providing a majority of the growth driven services was not viewed as a viable solution. Thus, the Task Force recommends against any approach that would shift, as opposed to solve, the problem.

Impacts upon Economic Development

The Task Force is mindful that changes to Nevada's tax structure can have impacts upon the economic development and diversification efforts that are made on behalf of the State. It is crucial that Nevada remain competitive with surrounding states and, preferably, attractive by comparison. The benefits of economic diversification, to the collective units of government and to the community as a whole, are clearly understood and, thus, are not repeated here.

The Task Force is aware that the imposition of any tax programs that affect business can also lead to concerns regarding the impact that those programs will have upon the State's ability to attract new businesses and retain existing businesses. Largely because of this, the Task Force made specific efforts to reduce the demands placed upon solely business tax sources by balancing the mix of recommended revenues to include significant non-business sources. Absent these efforts, the upward pressure upon the business tax sources would have been substantially greater. Further, the Task Force, via the recommendation that would eliminate businesses having less than $350,000 per year in business receipts from having any tax liability, and the recommended credit for qualified Nevada employees, has further reduced the impacts of this tax source. These actions represent a clear desire on the part of the Task Force to minimize the burden being placed upon business in the blended solution recommendation.

It is important to add that the outcome of the efforts to minimize the impacts upon business naturally led to the recommendation of a tax rate upon adjusted gross receipts

(¼ of one-percent) that is comparatively less, and in many cases far less, than the rates imposed by states that have a similar tax.

The Task Force also believes that, independent of the imposition of a business tax, Nevada needs to consider its commitment to economic development and the type of business (i.e. higher than average wage employers, high tech, etc.) that it would like to attract. This may mean an evaluation of the wide variety of inducements that Nevada may offer to insure that Nevada can remain competitive.

Fees And Charges Of State Agencies

From the testimony provided by certain departments of the State, it is clear that the schedules of fees and charges used by State agencies need to be re-evaluated to determine whether they are adequately providing returns commensurate with the cost of providing services, or are achieving the revenue levels originally intended. If not periodically updated, these unit-based fees and charges erode in value over time. For example, a $10 charge implemented in 1981 would only be worth the equivalent of $4.94 today. As the fees and charges lose value over time, the programs that are reliant upon these revenues also suffer. The testimony by the Division of Wildlife and by the Division State Parks helped bring this issue into focus.

The Task Force understands that certain fees are levied for regulation, while others are levied for purposes of generating revenue for the State's general fund. In any case, the value of fees and charges can erode over time despite the purpose of the fee or charge.

The Task Force recommends that the State undertake a thorough review of the various fees and charges that are charged by its agencies, and that, where the value of the fee or charge has failed to maintain pace with inflation, or fails to cover the cost of the service being provided, the fee be considered for revision. This, of course, must be meshed with ability to pay issues relating to the fee or charge in question.

Indexing Of State Revenues

Consistent with the discussion regarding State fees and charges, the Task Force notes that several sources of State revenue suffer as inflation reduces the unitary value of the source of taxation. This is true of fees and charges, as discussed above, and is also true of unit-based taxes. Examples of unit-based taxes include cigarette tax, liquor tax, vehicle fuel tax, slot route operators tax, and the like. The Task Force's recognition that inflation causes an erosion of the value of unit-based taxes is clearly embodied within the recommendations summarized within Section 7, wherein increases in the cigarette, liquor and slot route taxes are suggested. However, the increases recommended only bring the levels of these unit-based taxes into better current alignment with past values. Over time, failure of the revenue arising from these unit-based taxes to reflect constant dollar values is among the principal contributors to the State's future funding imbalances.

Future increases in these tax sources were not assumed in the modeling that was done to estimate future funding gaps, nor did the Task Force include indexing among its recommendations. It is simply suggested that a periodic review of the inflation effects upon certain taxes be undertaken.

Revenue Collection and Enforcement Function

Among the recommendations included within Section 7 of this report is one dealing with a general area described as "passive revenue generators." These recommendations are primarily focused upon changes in practices that would allow the State to more expediently and efficiently collect dollars owed the State under the current tax structure. Among the passive revenue generating mechanisms is one that would allow for electronic filing of reports to the State, which would clearly allow for more rapid and simplified reporting. To allow for this enhancement, an upgrade to the information technology of the State will be required. However, the payback justifies the investment.

The recommendations in Section 7 also include increases in existing tax sources (i.e., cigarette tax, liquor tax, corporate filing fees, slot route fees, gross gaming tax, etc.), an increase in a variation of an existing source (i.e., Admissions and Amusement Tax), and the implementation of new sources (i.e., State Activity Tax). Other recommendations have been made that affect the procedural application of existing taxes (i.e., the extension of the State Business License Tax to sole proprietors).

Each of the foregoing changes will require modifications to the current system of administration, collection and enforcement that is performed by agencies of the State. These modifications will require additional investment by the State to improve the information technology and human resource commitments made to support the revenue collection and enforcement functions. These investments are required if the State wishes to have a system of administration, collection and enforcement that is efficient, effective and uniform.

To take this recommendation a step further, the Task Force strongly encourages the State to expedite this investment. Given that some of the recommendations for funding sources will undoubtedly require a substantial level of effort, and some amount of time, to implement, it makes sense to proceed as expeditiously as possible in establishing the appropriate collection and enforcement infrastructure. Waiting longer than necessary to bring the required systems on-line will result in a delay of collections and, thus, a loss of income to the State.

In its modeling, the Task Force has made accommodation for the cost of administering and enforcing the collection of revenue recommended by this report. This includes an allowance of $20 million for information technology upgrades, and $5 million per year for operations and maintenance. This recommendation is generally in line with cost of collection standards.

Definition of Qualified Nevada Employee

The Task Force recommended that the definition of "qualified Nevada employee," for purposes of computing the tax credit against the state activity tax ("SAT"), be an employee for whom the State's business license tax was paid in the quarter preceding the quarter for which the SAT is due. This provides for a very simple and uniform manner of calculating credits, and serves to give relief to companies that employ people in Nevada.

The Task Force had additional discussion, but made no recommendation, regarding whether it might be appropriate to broaden the definition of qualified Nevada employee to include other factors. Among the factors noted was the notion of providing this credit for those employers that provide a certain minimum level of health care coverage for their employees. Under this scenario, a qualified Nevada employee would be one for whom the State business license tax was paid in the prior quarter and for whom an appropriate level of health care coverage was provided. The Task Force did not define the "appropriate" level of health care coverage.

The reason that this point is raised here is to indicate that there are opportunities to reward "good corporate citizenship," or other behaviors, through the definition of qualified Nevada employee. Again, no recommendation beyond the definition used in the first paragraph of this subsection was made in this area.

Responses To Solicitation

As has been noted, the Task Force conducted a very thorough solicitation process, which encouraged businesses, individuals, trade associations, labor unions, governmental entities, departments of the State, and others to comment on Nevada's current and future tax policies. An impressive number of responses were received, and they are included in Appendix 8 to this report.

In many cases, the responses did not generally address tax policy issues; rather, several focused upon specific areas of funding needs for programs or agencies. It was beyond the scope of the Task Force's work to attempt to validate or make a judgment about program funding information. That is more appropriately a function of the State's budgeting process. However, it was felt that this information should be included in the report for reference.

Ongoing Process

The Task Force believes that, should the state implement all or part of the recommendations contained in this report, it would be very wise to convene a panel similar to the Task Force to help monitor and make recommendations for any adjustments to the plan contained herein. The Task Force recommendations are based upon estimates of both State funding needs and upon potential revenue yields. Consequently, actual results may vary from the estimates. To help "fine tune" the implementation of modifications to the State tax structure, it is recommended that the process that has begun with the work of this Task Force be continued into the future.

Analysis of Fiscal Policy in Nevada

Appendix 8:
Responses to Solicitation

Governor's Task Force on Tax Policy in Nevada

November 15, 2002

Exhibit 8A-1: Table of Contents of Responses to Solicitation

December 2002

- Fiscal Affairs of State and Local Governments in Nevada: Executive Summary
- Assembly Concurrent Resolution No. 1 – Joint Rules Committee
- Revenue Reference Manual, Fiscal Analysis Division, December 2001
- The Measures of Fiscal Policy, Nevada Taxpayers Association
- Letter from Emil Seljan
- Letter from Knight Allen
- Letter from Nevada Seniors Coalition

January 2002

- Solicitation of Comments, Hobbs, Ong & Associates, Inc.
- General Fund Long-Range Forecast
- Major Economic Indicators
- "Just say no to school bond boondoggle," Las Vegas Senior Press
- Future Economic Outlook: 2002, Southern Nevada Economic Outlook 2002
- Economic outlook and long-term implications for Nevada fixed income tax payers and their reality in this time of disastrous economic downturn, NSC
- Letter from L. Kenneth Mahal A.I.A., President, Nevada Seniors Coalition

February 2002

- Comments of Edward R. Duffy, Nevada Senior Coalition
- Nevada K-12 Education – Presentation
- Nevada K-12 Education, Comments of Jack McLaughlin, Superintendent of Public Instruction
- "Building Blocks for Success," Education Week, January 10, 2002

March 2002

- Expenditures per Student in Nevada Compared to National Averages
- Testimony Before Governor's Task Force Wednesday February 13, 2002, President Terry Hickman
- Leslie Fritz, NSEA Learning & Public Policy Specialist
- NSEA Quality School Plan
- "Keeping Our Commitment to Nevada's Children," Quality Schools Today & Tomorrow
- "Keeping Our Commitment to Nevada's Children," Quality Schools Today & Tomorrow
- Testimony Before Governor's Task Force, Wednesday February 13, 2002, President Lynn Warne-

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Washoe County Teachers Association

- Where We Are, Dr. Walt Rulffes, Clark County School District
- Clark County School District 2001-02 Annual Teacher Salary Schedule
- University & Community College System of Nevada, UCCSN and K-12: Partners in Education, Dr. Jane Nichols, Chancellor

April 2002

- Property Tax Tables and Presentation
- Long Term Care in Nevada, Nevada Association of Counties, Tracy Becker
- Population Demographic Trends, Department of Human Resources
- Change in Medicaid Match Payments, FY 97-98 through FY 02-03, Nevada Counties

May 2002

- Division of Wildlife, Comments from Terry Crawforth, Administrator
- A Funding and Accountability Proposal by the Nevada Association of School Superintendents, iNVest
- Funding State Parks, Wayne R. Perock, Administrator
- Presentation by the Culinary Union, May 15, 2002
- Nevada State Parks (Brochure)

June 2002

- Plan, Two Plus Two Proposal, Progressive Leadership Alliance of Nevada
- Plan, Two Plus Two - PowerPoint Presentation
- State of Nevada, Department of Taxation Annual Report FY 2000-01
- List of Fiscal Modifications
- General Fund Revenues, Handout by Knight Allen

July 2002

- Handout presented by Kendall Stagg, Policy Manger, Nevada Tobacco Prevention Coalition
- Funding Wildlife, Conservation into the Future, presented by Gene Weller, Deputy Director
- Mental Health Crisis Overview, The Southern Nevada Mental Health Coalition & The Chronic Public Inebriate Task Force
- Task Force on Hospital Overcrowding and Mental Health Coalition, presented by Katherine Landreth, Las Vegas Metropolitan Police Department
- Letters of Support for Mental Health Issues
- Verbatim Testimony, Walt Elliott, President. AFL-CIO

Exhibit 8A-1: Table of Contents of Responses to Solicitation

- Presentation Agenda, Business Group on Tax Policy
- Presentation by Ray Bacon, Nevada Manufacturer's Association
- Revenue Proposals for Consideration by the Governor's Task Force on Tax Policy, presented by Carole Vilardo, Nevada Taxpayers Association
- Analysis of Proposed Broadly Based Taxes, Business Group on Tax Policy
- Employer-Sponsored Health Insurance and Uncompensated Care: The Role of the University Medical Center in Clark County
- Handout provided by Stephanie Licht, Legislative Consultant, Elko County
- National Association of Counties, Overview
- Nevada Public Land Grazing Trend Report & Economic Analysis
- Fiscal Equity: Today's Problem From Yesterday's Solution, prepared by Theodore Oleson and Glen Atkinson, UNR
- Letter from Larry Brown III

August 2002

- Alcohol Tax Proposal – Presentation prepared by Kevin Quint
- Disposable Income of Small Business Owner, presented by Asian Chamber of Commerce
- Proposals to Provide Increased Efficiencies and Revenue Enhancements to the Taxes and Fees Collected by the State, Carole Vilardo, Nevada Taxpayers Association
- Letter from John Sasser, Legal Services, Statewide Advocacy Coordinator
- Letter from Ted Mendalski
- Reviving Nevada's Economy

September 2002

- Gross Receipts Tax Proposal

Solicitation Responses

- Comments of Kathy Augustine, Nevada State Controller
- Comments of Jan Gilbert, Northern Nevada Coordinator, Progressive Leadership Alliance of Nevada
- Comments of Kit Weaver, Carson City Assessor
- Comments of Kevin Quint, Executive Director, Join Together Northern Nevada
- Comments of Shaun D. Carey, Sparks City Manager
- Comments of Danny Costella, Business Agent, International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers, Local Union No. 118
- Comments of Gregory H. Krause, Executive Director, Regional Transportation Commission of

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Washoe County

- Comments of Jon L. Sasser, Esq., Statewide Advocacy Coordinator, Washoe Legal Services
- Comments of Debbie Carone, Lander County Executive Director
- Comments of Douglas Bierman, Senior Research Associate, Intertech Services Corporation, on behalf of Eureka County
- Comments of Larry Struve, Advocate, Religious Alliance in Nevada
- Comments of Kevin J. Phillips, Mayor, City of Caliente
- Comments of John Berkich, City Manager, Carson City
- Comments of Brad Roberts, Chairman, Elko County Commission
- Comments of the University and Community College System of Nevada Full Report, Executive Summary, Master Plan for Higher Education in Nevada, Residency Status of Students Fall 1992 - Fall 2000
- Comments of Candace C. Kant, Ph.D., President, Nevada Faculty Alliance
- Comments of Robert S. Hadfield, Executive Director, Nevada Association of Counties (NACO)
- Comments of Mary J. Albers, President, League of Women Voters of Nevada (LWV)
- Comments of John Madole, Executive Director and Steve Holloway, Executive Vice President, The Associated General Contractors of America, Nevada Chapter
- Comments of Ray Bacon, Executive Director, Nevada Manufacturers Association (NMA)
- Comments of Jake Vorac, Mechanical Products of Nevada, Inc.
- Comments of Rev. Dr. Jane Foraker-Thompson, President, Religious Alliance In Nevada (RAIN)
- Comments of Knight Allen
- Comments of Marty Elder, CPA, SMI Joist
- Comments of Assemblyman David Parks, Chairman, Legislative Committee for Local Government, Taxes and Finance
- Comments of Daniel C. Holler, Douglas County Manager
- Comments of Kit Weaver, Carson City Assessor

Note: The documentation outlined in Exhibit 8A-1 was incomplete as of the date of this report; and as such, the referenced documents will be forthcoming.