Guinn Center
For Policy Priorities

Legislative Testimony | Senate Bill 378: Supplemental Revenue Fee

March 24, 2015

Testimony before the Senate Committee on Revenue and Economic Development
Prepared Statement of Kenny Guinn Center for Policy Priorities

The Guinn Center has prepared scenarios showing the impact of the Supplemental Revenue Fee proposed in SB 378 compared to the Business License Fee in SB 252 and other past tax proposals: 2003 Gross Receipts Tax, 2011 Margin Tax, 2014 Margin Tax, and the Modified Business Tax.

- Financial activities have the highest effective tax rate under SB 378 because these businesses would pay the Supplemental Revenue Fee and the Modified Business Tax.
- Small businesses have a slightly lower effective tax rate than larger businesses under SB 378 due to the $25,000 quarterly exemption.
- Large gaming and mining businesses would have lower effective tax rates than other businesses under SB 378 because revenue subject to industry specific taxes would be exempt. Mining would also pay a 2 percent modified business tax.
- There is variability in whether the effective tax rate on gross receipts under SB 378 is higher or lower than under SB 252.
- The effective tax rates under SB 378 are lower than under the 2014 Margin Tax proposal.

Comparison of Effective Tax Rates under Supplemental Revenue Fee and Other Proposals

Governor Examples	Revenue	Business License Fee + MBT (SB252)	Supplemental Revenue Fee + MBT+BLF (SB378)	Assembly Hybrid Tax (AB 464)	Gross Receipts Tax 2003	Margin Tax 2011 + MBT	Margin Tax 2014 + MBT	Modified Business Tax (Current Rate)
A. Construction	2,000,000	0.216%	0.462%	0.339%	0.194%	0.280%	1.400%	0.129%
B. Financial Activities	5,500,000	0.213%	0.548%	0.024%	0.230%	0.458%	1.400%	0.084%
C. Health Services	27,000,000	0.381%	0.465%	0.257%	0.246%	0.539%	1.400%	0.172%
D. Retail Trade	17,000,000	0.161%	0.465%	0.066%	0.243%	0.527%	1.400%	0.034%
Business Examples								
1. Construction Subcontractor	1,476,000	0.380%	0.461%	0.701%	0.174%	0.291%	0.686%	0.291%
2. Commercial Insurance Broker	1,834,000	0.405%	0.461%	0.604%	0.189%	0.278%	1.043%	0.278%
3. Small Medical Practitioner	3,790,000	0.607%	0.463%	0.599%	0.220%	0.396%	1.143%	0.396%
4. Automotive and Accessories Retail Sales	31,137,000	0.251%	0.465%	0.207%	0.246%	0.270%	0.740%	0.129%
5. Real Estate Broker	15,186,000	0.630%	0.465%	0.550%	0.243%	0.456%	1.272%	0.351%
6. Telecommunications Business	23,114,000	0.499%	0.465%	0.245%	0.245%	0.536%	1.400%	0.162%
7. Average Large Las Vegas Strip Casino	654,772,409	0.355%	0.295%	0.309%	0.158%	0.354%	0.887%	0.207%
8. Restaurant with 15 Slots	1,300,000	0.211%	0.460%	0.146%	0.040%	0.000%	0.646%	0.000%
9. Gold Mine	100,000,000	0.133%	0.337%	0.186%	0.074%	0.554%	1.400%	0.115%

Does the Supplemental Revenue Fee Reflect Elements of Good Tax Policy?

- <u>Stable and Predictable:</u> The Supplemental Revenue Fee is based on a business's gross receipts, which is viewed by many as a more stable and predictable source of revenues than corporate income taxes
- <u>Broad based and low:</u> The Supplemental Revenue Fee is not as broad based as the Governor's Business License Fee proposal because it exempts small businesses with less than $25,000 in revenue

per quarter, while the Governor's proposal would affect every business. However, this makes it less regressive than the restructured Business License Fee (SB252), particularly for small businesses.

- Fair and simple, protect economic competitiveness: The Supplemental Revenue Fee includes a single tax rate, which is easier for businesses and the State to administer than the 27 tax rates for the Governor's proposed Business License Fee. It also eliminates the incentive to pick and choose rates to game the system. However, by treating all businesses the same, it does not take into account the relative profitability of each industry. The Supplemental Revenue Fee can also lead to pyramiding since it is based on gross receipts.

  The Modified Business Tax would be eliminated for most businesses, but would be 2 percent for mining and financial activities, which creates equity concerns. Eliminating the Modified Business Tax completely would be more equitable.

Revenue Exemptions

- The items excluded from the definition of revenue are the same under both the Supplemental Revenue Fee and the proposed Business License Fee (SB 252, Section 20 and SB 378, Section 20).
- There are a few differences in the definition of pass through revenue (SB 252, Section 11 and SB 378, Section 11).
- There are differences in the exemption of non-profit organizations. SB 378 exempts only 501(c)(3) corporations while SB 252 exempts all 501(c) corporations (SB 252, Section 3 and SB 378, Section 5).

Options for Consideration

- Given the lack of information on gross receipts, the Legislature should pass legislation (even before a revenue plan is approved) that requires large companies to file an informational tax return for the first quarter of 2015 before June 30th and submit it to the Secretary of State and the Department of Taxation.
- Given the lack of information on gross receipts, a proposal to eliminate the MBT immediately raises concerns about the State's ability to meet its revenue targets. To ensure revenue stability, we would recommend a plan that phases out the Modified Business Tax over time in lieu of eliminating it all at once. Avoid making the Modified Business Tax an industry-specific tax.
- Develop corrective measures in case revenue projections are not realized.

See related report and detailed spreadsheets: *The Business License Fee: What We Still Don't Know.*
http://guinncenter.org/publications/policy-reports/#GoverningNevada

Kenny C. Guinn Center for Policy Priorities: Contact Information
Kenny C. Guinn Center for Policy Priorities
c/o InNEVation Center
6795 Edmond Street, Suite 300
Las Vegas, NV, 89118
Phone: (702) 522-2178

Email: info@guinncenter.org
Website: www.guinncenter.org
Dr. Nancy E. Brune, Executive Director
Email: nbrune@guinncenter.org
Victoria Carreón, Director of Education Policy
Email: vcarreon@guinncenter.org