

RECONSTRUCTING NEVADA FOR THE 21<sup>ST</sup> CENTURY

# What Are We Left With?

- Significant reductions in funding for an already underperforming school district
- Significant reductions in funding for the state's colleges and universities, decreasing access and making Nevada less competitive from an economic development standpoint
- Reductions in health care services for children, seniors, the indigent and those with disabilities
- A large budget shortfall for the 2013 Legislative Session

## Non-Recurring Revenues in The Governor's Budget

**Total One-Time  
Funding Sources  
Included in  
Executive Budget:  
\$1.2 Billion**

**Taking Capital Construction Funds  
from Local School Districts (\$425M)**

(Note the Governor's amended budget proposes to reduce this diversion to \$247M)

**Borrowing Against (Securitizing)  
Future Insurance Premium Tax Collections (\$297M)**

(includes both the revenue and the repayment cost)

**Diversion of Education Room Tax Dollars (\$225M)**

**Governmental Services Tax Diversion (\$124M)**

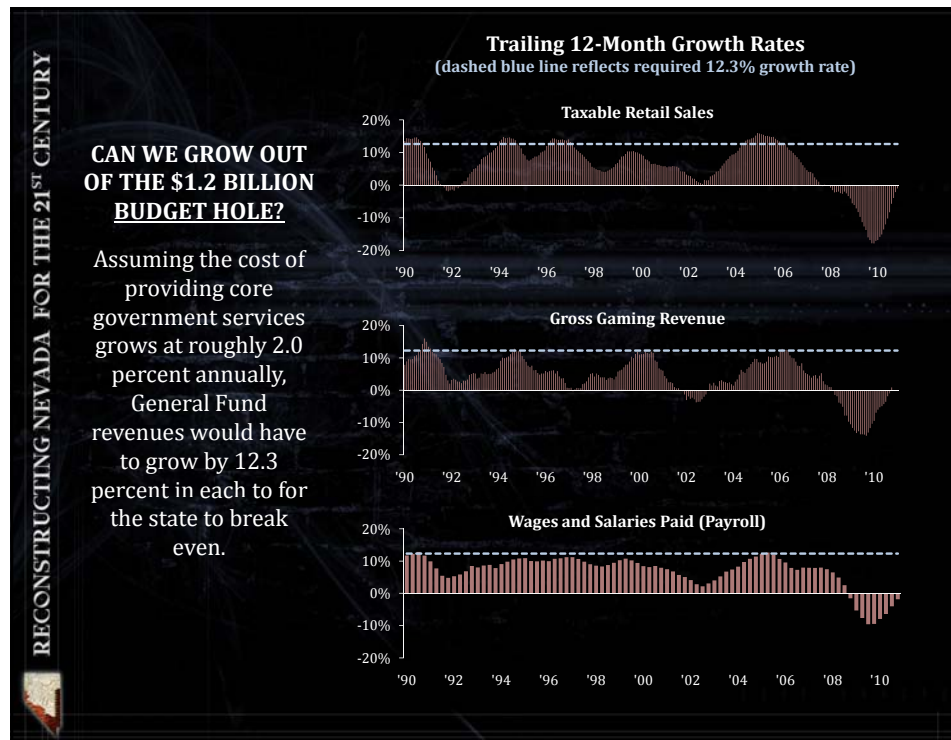
(note that this diversion was created by the 2009 Legislature, but is built into the Governor's proposed budget)

**Net Proceeds of Mines Advanced Payment (\$70M)**

**Diverting Funds from the Supplemental  
Account for Medical Assistance to  
Indigent Persons (\$38M)**

**Diversion of Court Assessments (\$9.8M)**

**Diversion of Quarterly Slot Fees (\$1.5M)**



**Revenue Surplus (Shortfall) Matrix for 2013-15 Biennium**  
Various Rates of Revenue and Expenditure Growth

Annual Growth Rate in Revenues	Annual Growth Rate in Expenditures										
	-5%	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%	5%
0%	\$ (373,264,068)	\$ (462,123,579)	\$ (551,593,816)	\$ (641,674,777)	\$ (732,366,453)	\$ (823,668,848)	\$ (915,581,961)	\$ (1,008,106,792)	\$ (1,101,240,342)	\$ (1,194,988,610)	\$ (1,289,341,687)
1%	\$ (293,398,711)	\$ (382,258,232)	\$ (471,728,472)	\$ (561,809,430)	\$ (652,501,106)	\$ (743,803,501)	\$ (835,716,614)	\$ (928,240,446)	\$ (1,021,374,996)	\$ (1,115,120,263)	\$ (1,209,476,250)
2%	\$ (212,896,113)	\$ (301,857,634)	\$ (391,327,874)	\$ (481,408,832)	\$ (572,100,508)	\$ (663,402,903)	\$ (755,316,016)	\$ (847,839,847)	\$ (940,974,397)	\$ (1,034,719,665)	\$ (1,129,075,652)
3%	\$ (132,062,263)	\$ (220,921,784)	\$ (310,392,024)	\$ (400,472,982)	\$ (491,164,658)	\$ (582,467,053)	\$ (674,380,166)	\$ (766,903,997)	\$ (860,038,547)	\$ (953,783,815)	\$ (1,048,139,802)
4%	\$ (50,891,162)	\$ (139,450,683)	\$ (228,920,923)	\$ (319,001,881)	\$ (409,693,557)	\$ (500,995,952)	\$ (592,909,065)	\$ (685,432,896)	\$ (778,567,446)	\$ (872,312,714)	\$ (966,668,700)
5%	\$ 31,415,191	\$ (57,444,330)	\$ (146,914,570)	\$ (236,995,528)	\$ (327,687,204)	\$ (418,989,599)	\$ (510,902,712)	\$ (603,426,543)	\$ (696,561,093)	\$ (790,306,361)	\$ (884,662,348)
6%	\$ 113,956,795	\$ 25,097,274	\$ (64,372,965)	\$ (154,453,923)	\$ (245,145,600)	\$ (336,447,995)	\$ (428,361,108)	\$ (520,884,939)	\$ (614,019,489)	\$ (707,764,757)	\$ (802,120,743)
7%	\$ 197,033,651	\$ 108,174,130	\$ 18,703,890	\$ (71,377,068)	\$ (162,068,744)	\$ (253,371,139)	\$ (345,284,252)	\$ (437,808,083)	\$ (530,942,633)	\$ (624,687,901)	\$ (719,043,888)
8%	\$ 280,645,758	\$ 191,786,237	\$ 102,315,997	\$ 12,235,040	\$ (78,456,637)	\$ (169,759,032)	\$ (261,672,145)	\$ (354,195,970)	\$ (447,330,520)	\$ (541,075,794)	\$ (635,431,780)
9%	\$ 364,793,117	\$ 275,933,596	\$ 186,463,356	\$ 96,382,396	\$ 5,690,722	\$ (85,611,673)	\$ (177,524,786)	\$ (270,048,617)	\$ (363,183,167)	\$ (456,928,435)	\$ (551,284,422)
10%	\$ 449,475,727	\$ 360,616,206	\$ 271,145,966	\$ 181,065,006	\$ 90,373,332	\$ (9,269,063)	\$ (92,842,176)	\$ (185,366,007)	\$ (278,500,557)	\$ (372,245,825)	\$ (466,601,812)
11%	\$ 534,693,589	\$ 445,834,068	\$ 356,363,828	\$ 266,282,870	\$ 175,591,194	\$ 84,288,799	\$ (7,624,314)	\$ (100,148,146)	\$ (193,282,695)	\$ (287,027,963)	\$ (381,383,950)
12%	\$ 620,446,702	\$ 531,587,181	\$ 442,116,941	\$ 352,035,963	\$ 261,344,307	\$ 170,041,912	\$ 78,128,799	\$ (14,395,032)	\$ (107,529,582)	\$ (201,274,850)	\$ (295,630,837)
13%	\$ 706,735,067	\$ 617,875,545	\$ 528,405,306	\$ 438,324,348	\$ 347,632,671	\$ 256,330,277	\$ 164,417,164	\$ 71,893,332	\$ (21,241,218)	\$ (114,988,486)	\$ (209,342,472)
14%	\$ 793,558,683	\$ 704,699,161	\$ 615,228,922	\$ 525,147,964	\$ 434,456,287	\$ 343,153,893	\$ 251,240,780	\$ 158,716,948	\$ 65,582,396	\$ (28,162,870)	\$ (122,518,856)
15%	\$ 880,917,550	\$ 792,058,029	\$ 702,587,788	\$ 612,506,831	\$ 521,615,155	\$ 430,512,780	\$ 338,589,647	\$ 246,075,816	\$ 152,941,266	\$ 59,195,998	\$ (35,159,869)
16%	\$ 968,811,689	\$ 879,952,148	\$ 790,481,908	\$ 700,400,950	\$ 609,709,274	\$ 518,406,879	\$ 426,483,766	\$ 333,969,935	\$ 240,835,385	\$ 147,090,117	\$ 52,734,130
17%	\$ 1,057,241,040	\$ 968,381,518	\$ 878,911,279	\$ 788,830,321	\$ 698,138,644	\$ 606,836,250	\$ 514,923,137	\$ 422,399,305	\$ 329,264,756	\$ 235,519,487	\$ 141,163,501
18%	\$ 1,146,205,662	\$ 1,057,346,140	\$ 967,875,901	\$ 877,794,943	\$ 787,103,266	\$ 695,800,872	\$ 603,887,759	\$ 511,363,927	\$ 418,229,377	\$ 324,484,109	\$ 230,128,123
19%	\$ 1,235,705,535	\$ 1,146,846,014	\$ 1,057,375,774	\$ 967,294,816	\$ 876,603,140	\$ 785,300,745	\$ 693,387,632	\$ 600,893,801	\$ 507,729,251	\$ 413,983,963	\$ 319,627,996
20%	\$ 1,325,740,660	\$ 1,236,881,139	\$ 1,147,410,899	\$ 1,057,329,941	\$ 966,638,265	\$ 875,335,870	\$ 783,422,757	\$ 690,896,926	\$ 597,764,376	\$ 504,019,108	\$ 409,683,121

# **There is No Simple Solution to Nevada's Fiscal Challenges, But We Can Do Better**

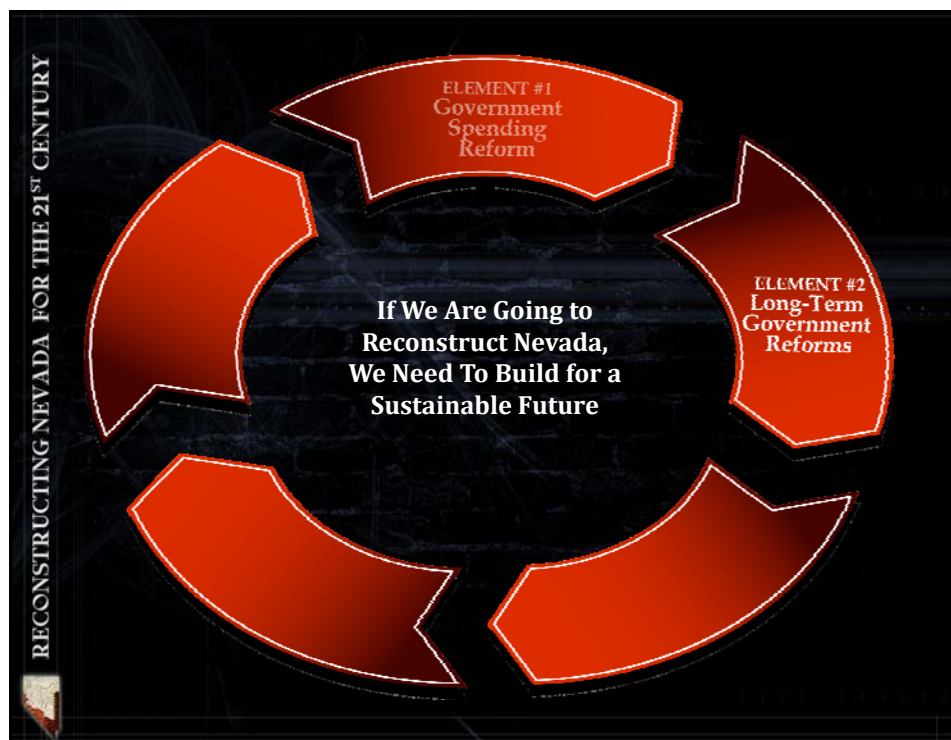






## Government Spending

1. Under All Scenarios State Spending is Less in 2011-13 than in 2009-11
2. Wage and Salary Reductions for All State Government Employees
3. Spending Reductions in Vast Majority of Decision Units
4. Nevada Already Spends Less than Most States on Education and Health Care Programs
5. Cautious Not to Elevate Form Over Substance







## Key Areas of Reform

1. General Administrative Reforms
2. Public Employee Retirement System
3. Public Employee Benefits System
4. K-12 Education Reforms
5. Higher Education Reforms
6. NRS 288 Reforms
7. Construction Defect Reforms

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## **Reform Bills Currently Active**

### **General Budget Reforms**

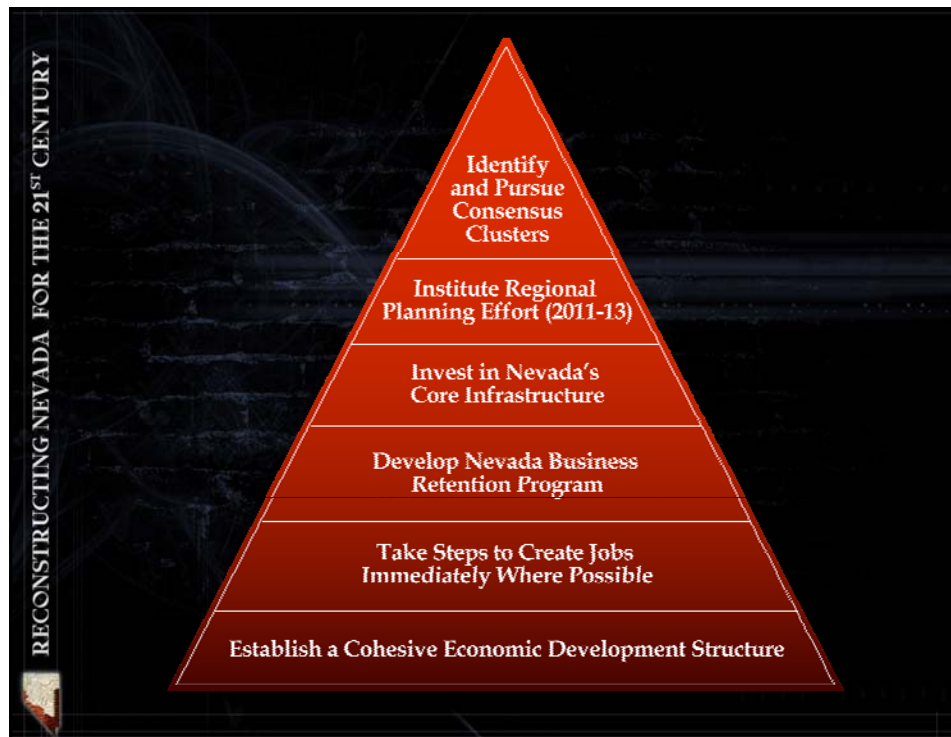
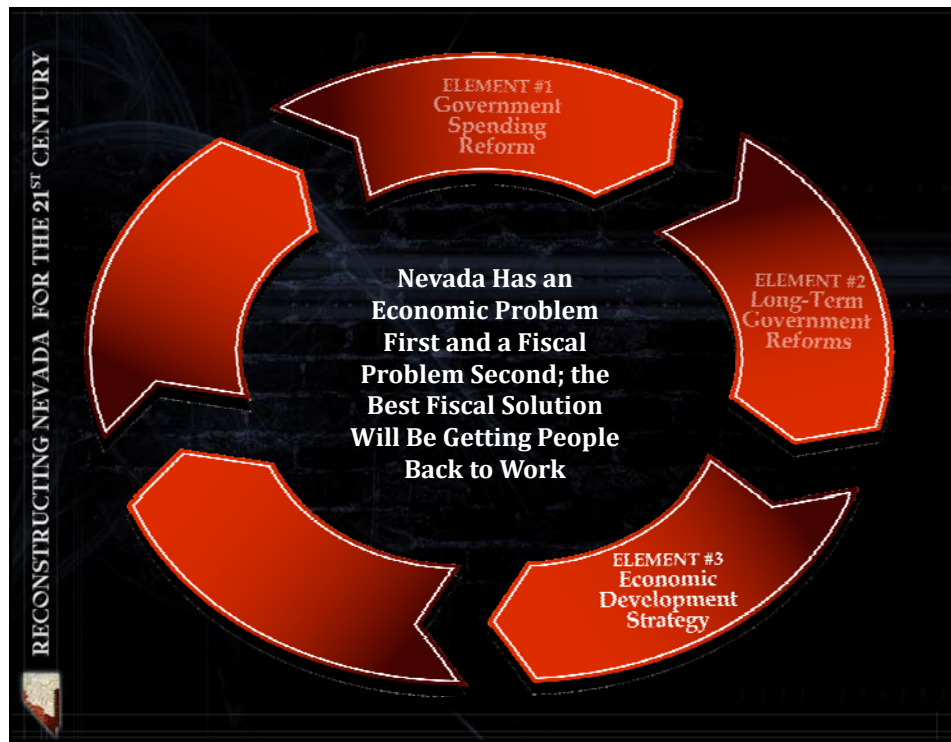
- Budget Metrics and Accountability: AB 248 (Smith); Finance
- Restrictions on Reversions: SB 74 (Controller); Assembly Government Affairs
- Management of State Assets: AB 404 (Oceguera); Ways and Means
- Grants Management: SB 233 (Parks); Assembly Government Affairs
- Yellow Pages Test for Agencies: SB 192 (Horsford); Assembly Govt. Affairs
- Review of Boards and Commissions AB 479 (Smith); Senate Legislative Ops
- Agency Fees Review: SB 251 (Kieckhefer); Assembly Govt. Affairs
- Sunset Board and Commissions: SB 251 (Kieckhefer); Assembly Govt. Affairs
- Transparency of State Contracts AB 240 (Smith); Senate Govt. Affairs
- Transparency on Nonprofits/State Funds AB 242 (Kirkpatrick); Senate Govt. Affairs
- Online Transparency – State Legislature AB 1 (Oceguera); Senate Govt. Affairs
- Reorganization of Economic Development AB 449 (Oceguera); Ways and Means

## Reform Bills Currently Active Public Employees and Collective Bargaining

- Benefits for Part-Time Employees: SB 104 (Settelmeier); Finance
- PERS II System for New Employees: SB 104 (Settelmeier); Finance
- PERS Unfunded Liability: SB 104 (Settelmeier); Finance
- PEBS Post-retirement Benefits for New Employees: SB 104 (Settelmeier); Finance
- Collective Bargaining, Salary Increase Mandates: SB 98 (Hardy); Assembly Government Affairs
- General PERS Reforms AB 405 (Oceguera); Assembly Government Affairs
- Financial Exigency Reopeners: SB 98 (Hardy); Assembly Government Affairs
- Salary Rollups Based on PERS Rate Hikes: SB 98 (Hardy); Assembly Government Affairs
- Longevity Pay Automatic Increases: SB 98 (Hardy); Assembly Government Affairs
- Limits on Collective Bargaining Topics: SB 98 (Hardy); Assembly Government Affairs
- Local Govt. Costs Associated with Contracts: SB 98 (Hardy); Assembly Government Affairs

## Reform Bills Currently Active Education (K-12 and Higher Ed)

- K-12 Governance: SB 197 (Education) Finance
- K-12 Rainy Day Fund: SB 122 (Government Affairs) Finance
- Higher Ed Rainy Day Fund: SB 434 (Governor); Finance
- Pay for Performance: AB 222 (Smith); Ways and Means
- Teacher Tenure – AB 225 (Ways and Means); Senate Education
- Advanced Degree Step Increases: AB 555 (Ways and Means); Ways and Means
- K-12 Pay for Performance, Evaluation, Dismal: AB 229 (Ways and Means); Senate Education
- Social Promotion: SB 372 (Finance); Finance
- Open Enrollment: AB 554 (Governor); Ways and Means
- Reporting of Higher Ed Spending: SB 434 (Governor); Finance
- NSHE Completion Rate Reporting: SB 449 (Finance); Finance
- Higher Ed Rainy Day Fund: AB 241 (Smith); Ways and Means
- Evaluation of Higher Ed Programs: AB 220 (Oceguera); Senate Education
- Alternative Licensure: AB 230 (Oceguera); Senate Education





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## Nevada Visioning Stakeholders Group

**Envisioning Nevada's Future**  
Goals & Strategies for Advancing Our Quality of Life

PREPARED FOR THE NEVADA VISION STAKEHOLDER GROUP BY MODOU'S ANALYTICS

September 2010

*"Quality of life can mean very different things to different people. This was particularly true within the NVSG because of the diverse interests and viewpoints represented."*

*The group's overall vision for Nevada revolves around a "triple bottom line" principle of economic development, environmental sustainability, and equitable opportunity for the citizens of Nevada."*

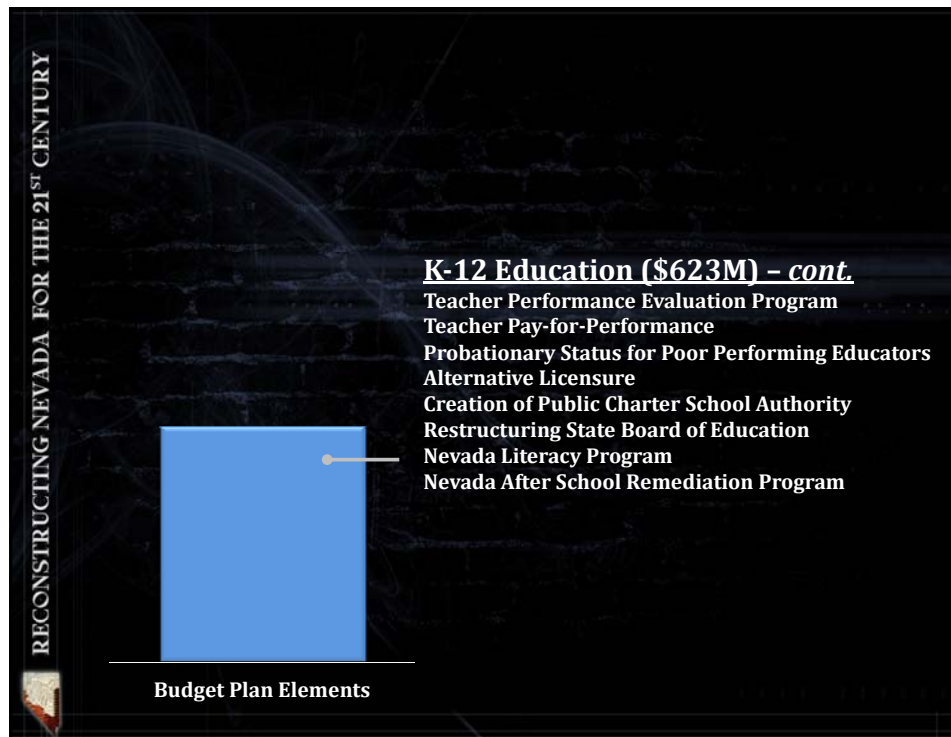
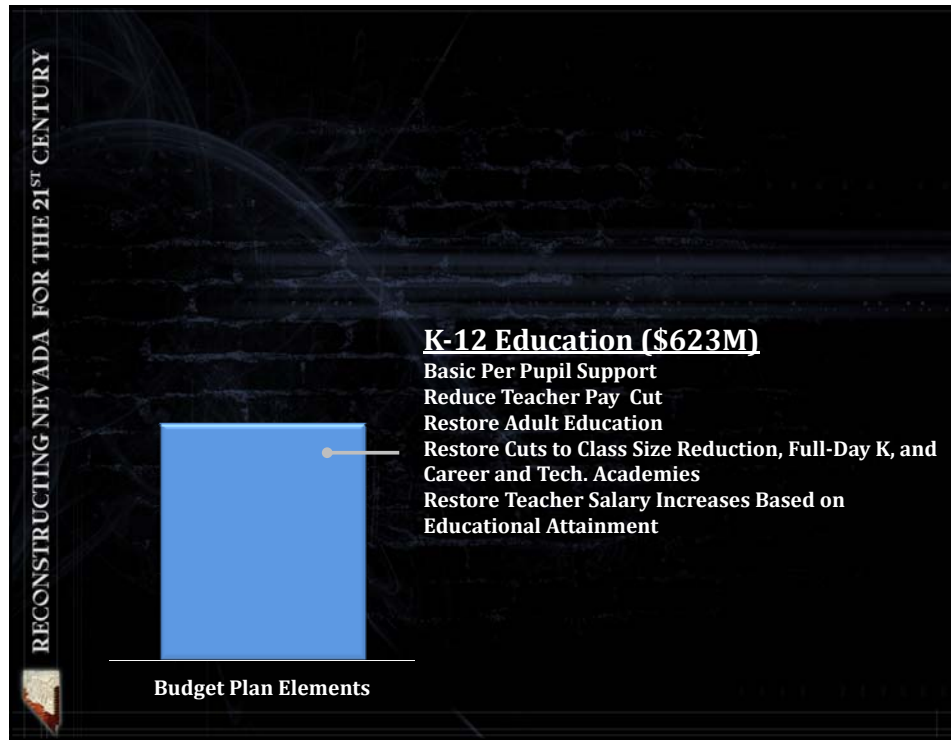


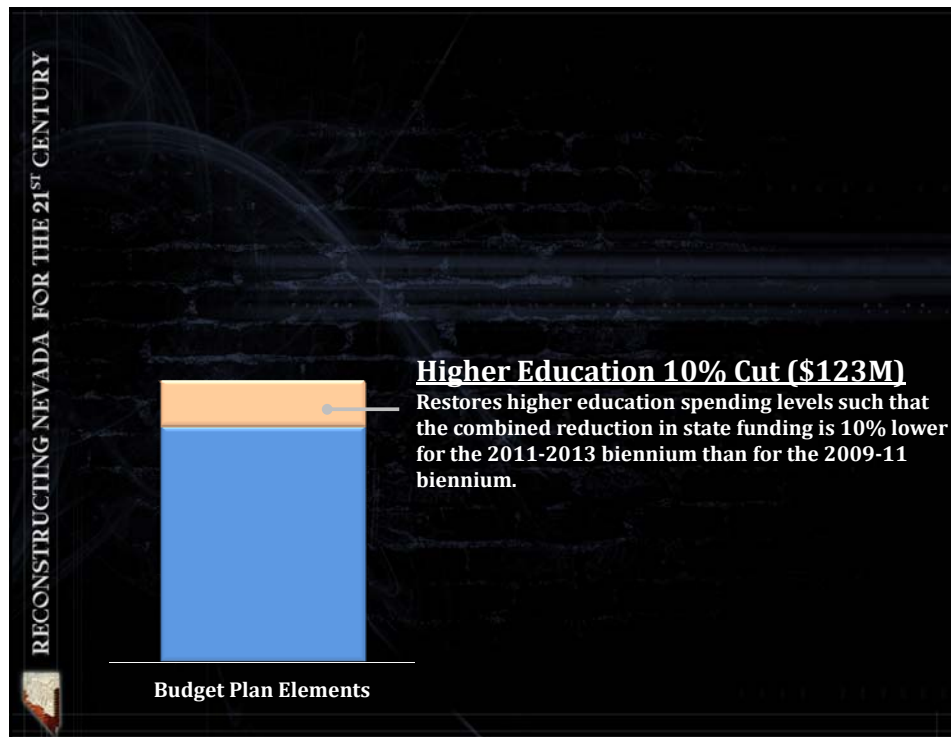
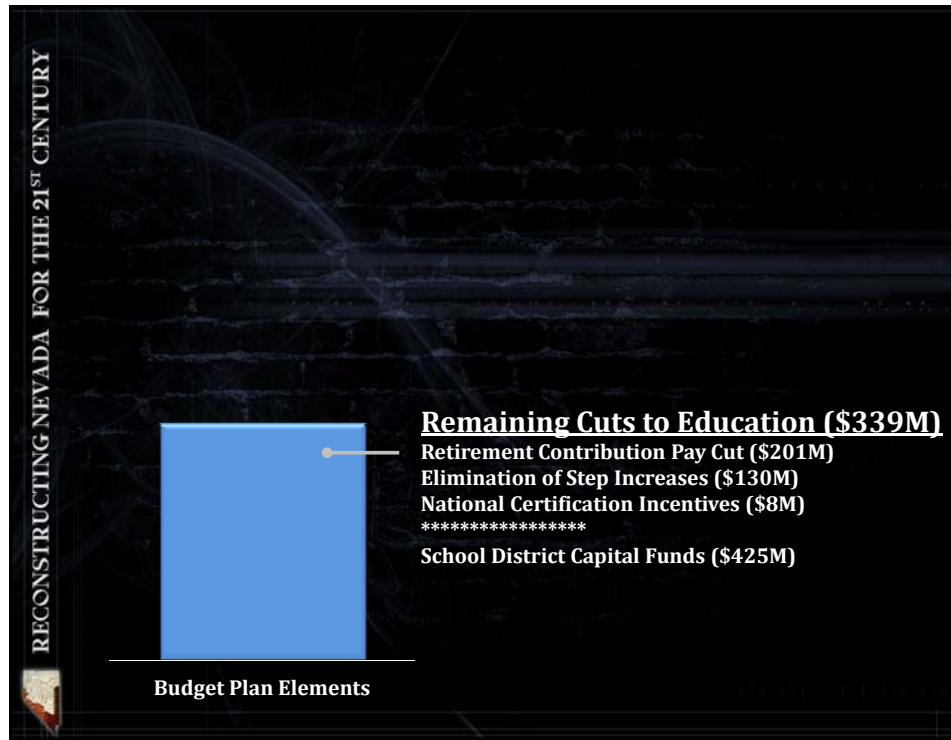


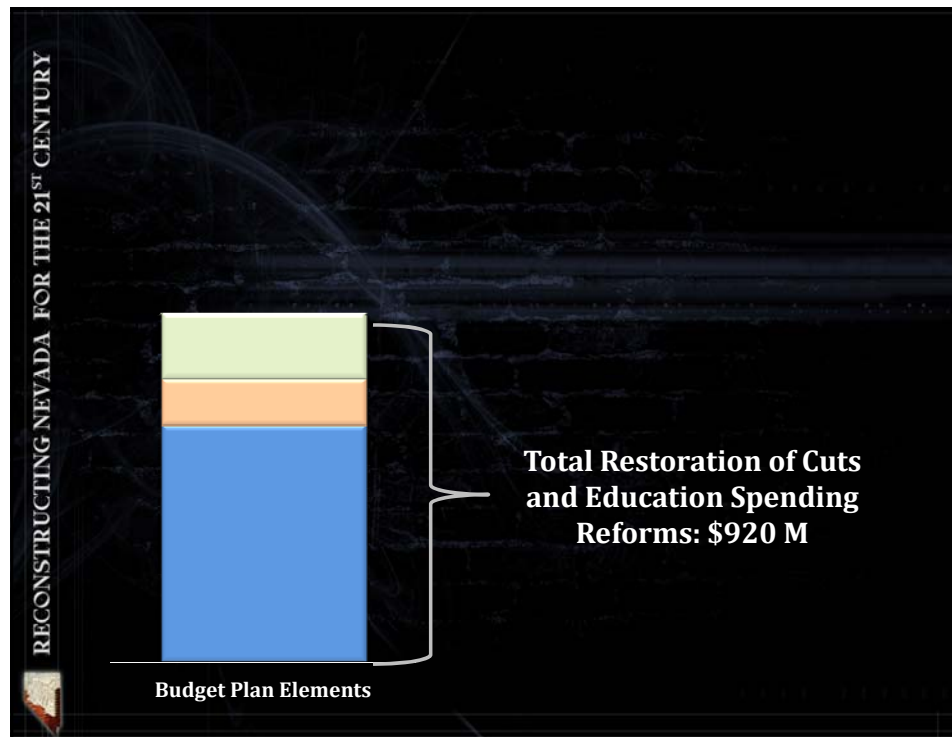
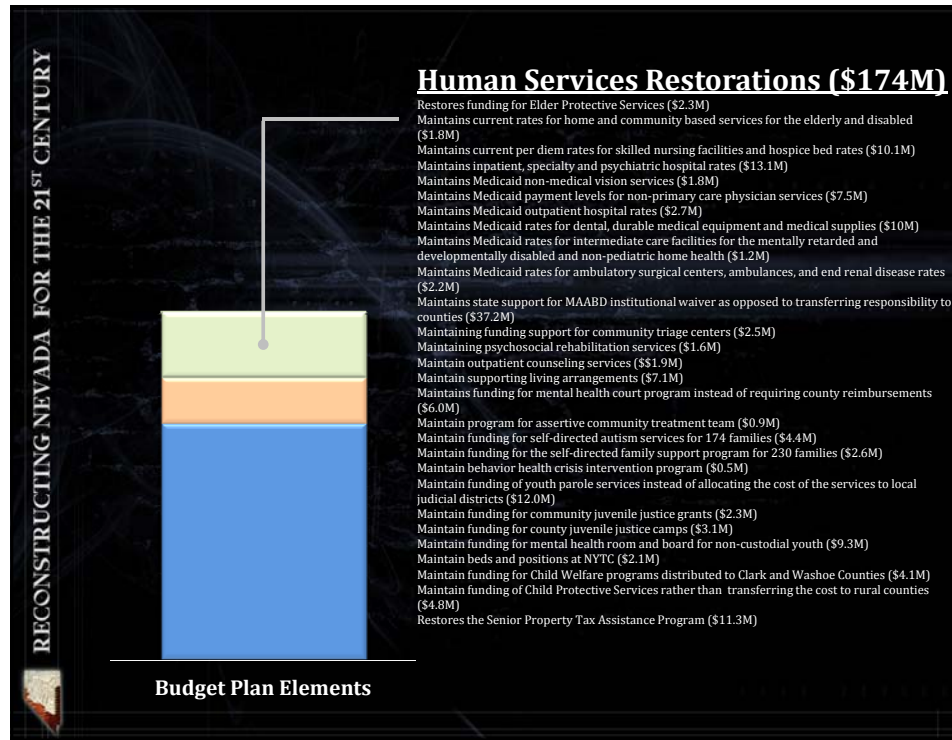
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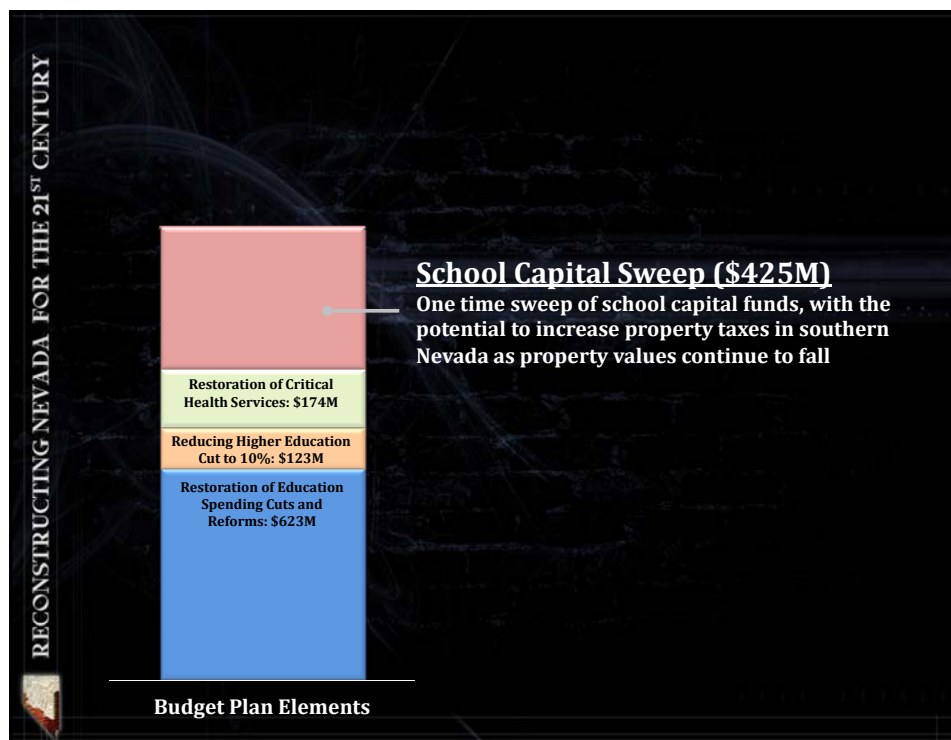
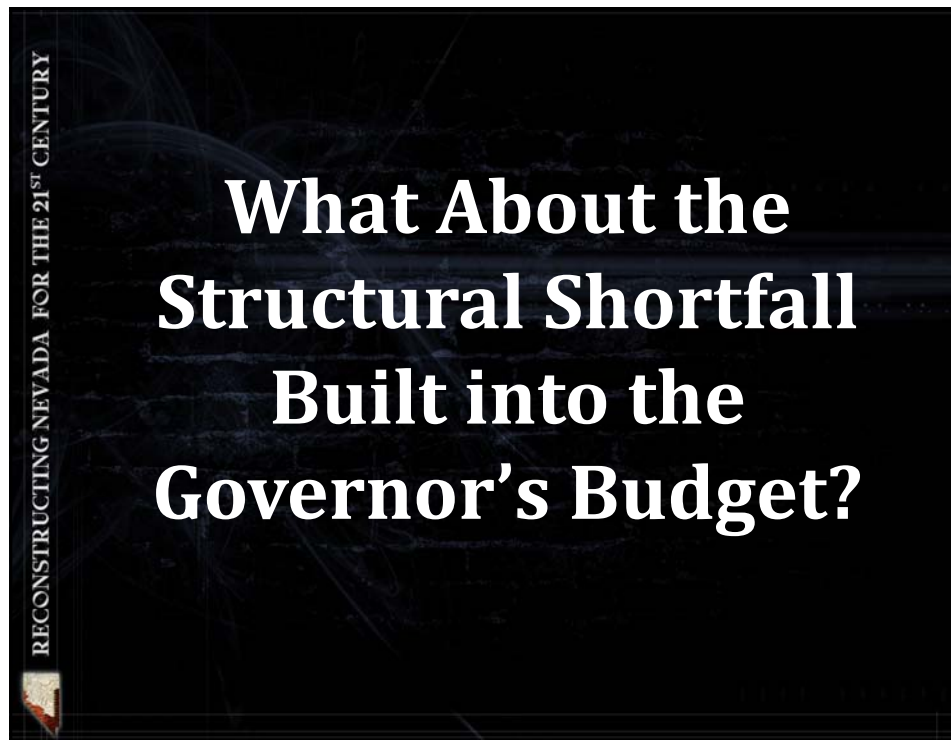
# What Additional Revenue is Needed?

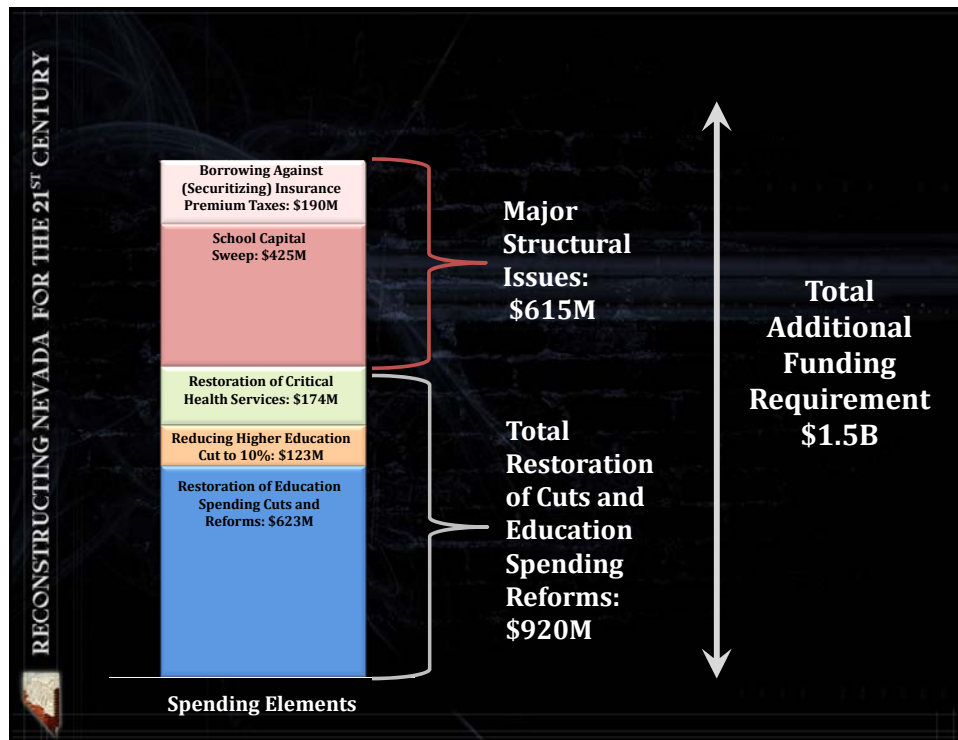
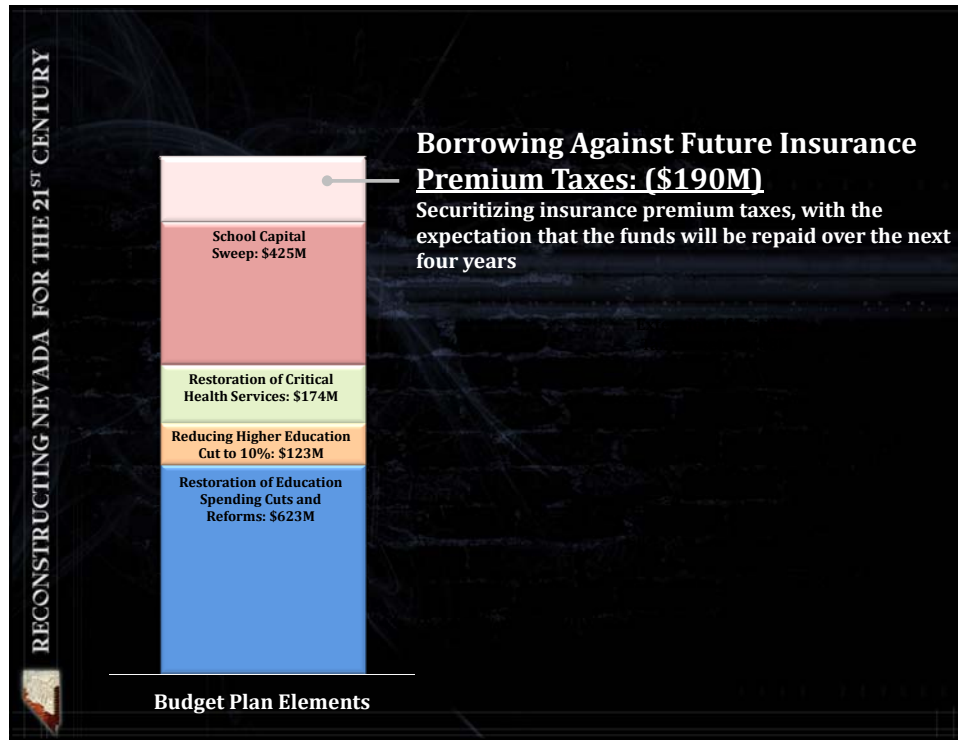














# How Do We Fund the Additional \$1.5 Billion?

## Several Options – *Three Key Elements*

### Element I

Provide a Bridge  
that Allows State  
Government to  
Function Until  
Alternative  
Revenues Can Be  
Brought On-Line

### Element II

Create a Nevada  
Transaction  
(Services) Tax  
and Lower the  
State's Existing  
Sales and Use  
Tax Rate


### Element III

Modify the  
Business Tax  
Structure to  
Increase Equity,  
Decrease  
Disincentives to  
Employment and  
Maintain  
Regional  
Competitiveness

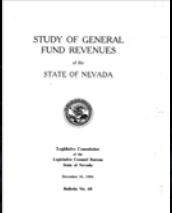
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**Challenges of the State's revenue system have been well documented**


**Zubrow Report, 1960**



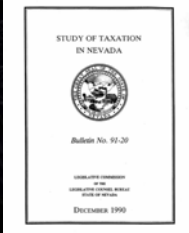
**Lybrand Report, 1966**




**Price Waterhouse ULI, 1988**



**Legislative Commission, 1990**



**Governor's Task Force, 2002**



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## Revenue Strategy Summary

<u><b>Element I</b></u>	<u><b>Element II</b></u>	<u><b>Element III</b></u>
<p>Provide a Bridge that Allows State Government to Function Until Alternative Revenues Can Be Brought On-Line</p>	<p>Create a Nevada Transaction (Services) Tax and Lower the State's Existing Sales and Use Tax Rate</p>	<p>Modify the Business Tax Structure to Increase Equity, Decrease Disincentives to Employment and Maintain Regional Competitiveness</p>

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## Element #1A

### Additional Revenue from Current Sources

<b>Net New General Fund</b> (Economic Forum's May 2, 2011 Forecast)	<b>+\$217M</b>
<b>Distributive School Account</b> (Net Gain in Local Revenues Deposited in the Distributive School Account)	<b>+\$133M</b>
<b>FMAP and Caseload Adjust.</b> (Federal Assistance Funds Were Greater than Anticipated, Caseloads)	<b>+69M</b>
<b>Increase in GST</b> (Governmental Services Tax Increase Greater than Expectation)	<b>+\$7M</b>
<b>Less: School District Capital Funding Hole in Governor's Budget*</b>	<b>-\$124M</b>
<b>Net Additional Revenue</b>	<b>+\$303M</b>

\*Note: The Governor's March 28, 2011 budget amendment in which the Budget Office addresses the deficit created by original strategy to take \$425 million in school capital reserves includes other budget adjustments including reducing the state's fund reserve, reducing supplemental appropriations to corrections, and reducing one-shot appropriations for interest and retirement buyouts. These budget actions, should the Legislature adopt them, would decrease total appropriations and/or increase available resources.

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## Element #1B

### Extend the Tax Sunsets

<b>Modified Business Tax</b> (0.5% on first \$250,000 in taxable payroll; 1.17% on payroll in excess of \$250,000)	<b>+\$281M</b>
<b>Local School Support Tax</b> (0.35% on all taxable goods to be deposited in the Distributive School Account)	<b>+\$285M</b>
<b>Business License Fee</b> (\$200 per business per year)	<b>+60M</b>
<b>Total Additional Revenue</b>	<b>+\$626M</b>

**Element #1C****Bridge  
Revenue  
Sources**

- Clark County School District  
Governmental Services Tax  
Capital Allocation
  - To be paid back over 3 fiscal years
- Continue the Local Government  
Investment Pool Line of Credit
  - To be paid back in the second year  
of the biennium
- Only to be used on an as-needed  
basis

**Revenue Strategy Summary****Element I**

Provide a Bridge  
that Allows State  
Government to  
Function Until  
Alternative  
Revenues Can Be  
Brought On-Line

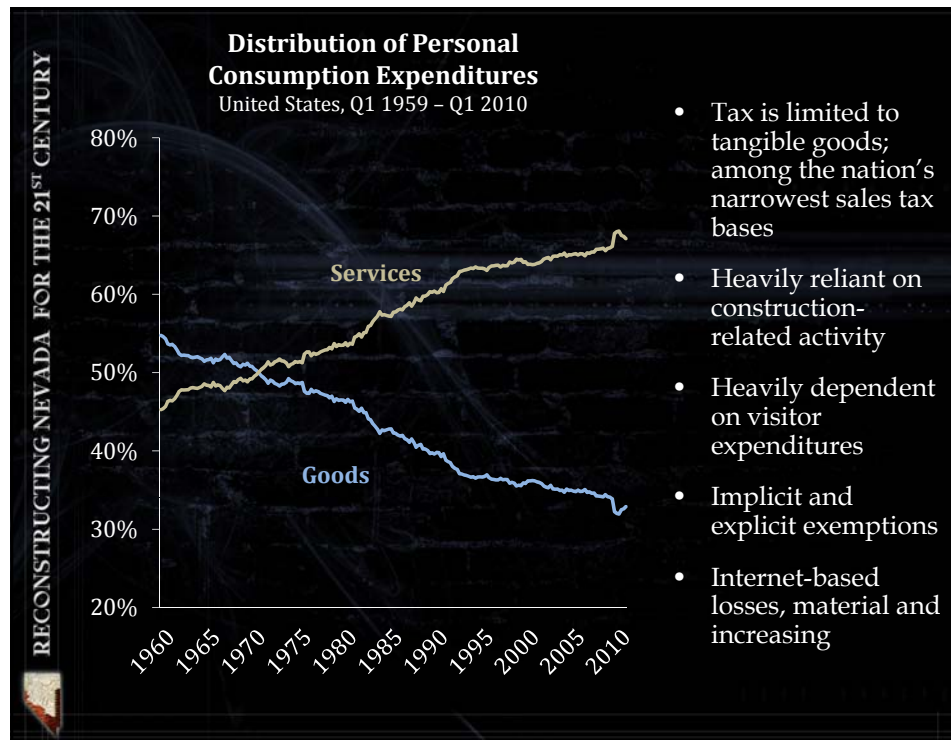
**Element II**

Create a Nevada  
Transaction  
(Services) Tax  
and Lower the  
State's Existing  
Sales and Use  
Tax Rate

**Element III**

Modify the  
Business Tax  
Structure to  
Increase Equity,  
Decrease  
Disincentives to  
Employment and  
Maintain  
Regional  
Competitiveness





**Element #2A**

**Create a Nevada Transaction Tax on Services**

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- Tax Rate: 1.0%-4.0%
- Selective Services Option
- All Services Option (Barring):
  - Non-Elective Health Care
  - Those Services Already Subject to a State Tax with an Equal or Higher Rate
  - Those Prohibited by Federal Law
  - Those that Would Increase the Regressivity of Nevada's Revenue Base
- To be administered, regulated and refined by the Nevada Department of Taxation



## Element #2B

### Reduce the Existing Sales and Use Tax Rate

- Fifty percent (50%) of the amount of Nevada Transaction (Services) Tax collections should be used to buy down the existing Sales and Use Tax imposed on goods
- Sales tax rate should be reduced by not less than 1 percent over the next four years

**Nevada Transaction Tax Yield Matrix**  
Various Rate and Base Assumptions

		Tax Rate Assumptions											
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	
Tax Base Assumptions (in billions)	\$10	\$100,000,000	\$150,000,000	\$200,000,000	\$250,000,000	\$300,000,000	\$350,000,000	\$400,000,000	\$450,000,000	\$500,000,000	\$550,000,000	\$600,000,000	
	\$12	\$120,000,000	\$180,000,000	\$240,000,000	\$300,000,000	\$360,000,000	\$420,000,000	\$480,000,000	\$540,000,000	\$600,000,000	\$660,000,000	\$720,000,000	
	\$14	\$140,000,000	\$210,000,000	\$280,000,000	\$350,000,000	\$420,000,000	\$490,000,000	\$560,000,000	\$630,000,000	\$700,000,000	\$770,000,000	\$840,000,000	
	\$16	\$160,000,000	\$240,000,000	\$320,000,000	\$400,000,000	\$480,000,000	\$560,000,000	\$640,000,000	\$720,000,000	\$800,000,000	\$880,000,000	\$960,000,000	
	\$18	\$180,000,000	\$270,000,000	\$360,000,000	\$450,000,000	\$540,000,000	\$630,000,000	\$720,000,000	\$810,000,000	\$900,000,000	\$990,000,000	\$1,080,000,000	
	\$20	\$200,000,000	\$300,000,000	\$400,000,000	\$500,000,000	\$600,000,000	\$700,000,000	\$800,000,000	\$900,000,000	\$1,000,000,000	\$1,100,000,000	\$1,200,000,000	
	\$22	\$220,000,000	\$330,000,000	\$440,000,000	\$550,000,000	\$660,000,000	\$770,000,000	\$880,000,000	\$990,000,000	\$1,100,000,000	\$1,210,000,000	\$1,320,000,000	
	\$24	\$240,000,000	\$360,000,000	\$480,000,000	\$600,000,000	\$720,000,000	\$840,000,000	\$960,000,000	\$1,080,000,000	\$1,200,000,000	\$1,320,000,000	\$1,440,000,000	
	\$26	\$260,000,000	\$390,000,000	\$520,000,000	\$650,000,000	\$780,000,000	\$910,000,000	\$1,040,000,000	\$1,170,000,000	\$1,300,000,000	\$1,430,000,000	\$1,560,000,000	
	\$28	\$280,000,000	\$420,000,000	\$560,000,000	\$700,000,000	\$840,000,000	\$980,000,000	\$1,120,000,000	\$1,260,000,000	\$1,400,000,000	\$1,540,000,000	\$1,680,000,000	
	\$30	\$300,000,000	\$450,000,000	\$600,000,000	\$750,000,000	\$900,000,000	\$1,050,000,000	\$1,200,000,000	\$1,350,000,000	\$1,500,000,000	\$1,650,000,000	\$1,800,000,000	
	\$32	\$320,000,000	\$480,000,000	\$640,000,000	\$800,000,000	\$960,000,000	\$1,120,000,000	\$1,280,000,000	\$1,440,000,000	\$1,600,000,000	\$1,760,000,000	\$1,920,000,000	
	\$34	\$340,000,000	\$510,000,000	\$680,000,000	\$850,000,000	\$1,020,000,000	\$1,190,000,000	\$1,360,000,000	\$1,530,000,000	\$1,700,000,000	\$1,870,000,000	\$2,040,000,000	
	\$36	\$360,000,000	\$540,000,000	\$720,000,000	\$900,000,000	\$1,080,000,000	\$1,260,000,000	\$1,440,000,000	\$1,620,000,000	\$1,800,000,000	\$1,980,000,000	\$2,160,000,000	
	\$38	\$380,000,000	\$570,000,000	\$760,000,000	\$950,000,000	\$1,140,000,000	\$1,330,000,000	\$1,520,000,000	\$1,710,000,000	\$1,900,000,000	\$2,090,000,000	\$2,280,000,000	
	\$40	\$400,000,000	\$600,000,000	\$800,000,000	\$1,000,000,000	\$1,200,000,000	\$1,400,000,000	\$1,600,000,000	\$1,800,000,000	\$2,000,000,000	\$2,200,000,000	\$2,400,000,000	
	\$42	\$420,000,000	\$630,000,000	\$840,000,000	\$1,050,000,000	\$1,260,000,000	\$1,470,000,000	\$1,680,000,000	\$1,890,000,000	\$2,100,000,000	\$2,310,000,000	\$2,520,000,000	
	\$44	\$440,000,000	\$660,000,000	\$880,000,000	\$1,100,000,000	\$1,320,000,000	\$1,540,000,000	\$1,760,000,000	\$1,980,000,000	\$2,200,000,000	\$2,420,000,000	\$2,640,000,000	
	\$46	\$460,000,000	\$690,000,000	\$920,000,000	\$1,150,000,000	\$1,380,000,000	\$1,610,000,000	\$1,840,000,000	\$2,070,000,000	\$2,300,000,000	\$2,530,000,000	\$2,760,000,000	
	\$48	\$480,000,000	\$720,000,000	\$960,000,000	\$1,200,000,000	\$1,440,000,000	\$1,680,000,000	\$1,920,000,000	\$2,160,000,000	\$2,400,000,000	\$2,640,000,000	\$2,880,000,000	
	\$50	\$500,000,000	\$750,000,000	\$1,000,000,000	\$1,250,000,000	\$1,500,000,000	\$1,750,000,000	\$2,000,000,000	\$2,250,000,000	\$2,500,000,000	\$2,750,000,000	\$3,000,000,000	
	\$52	\$520,000,000	\$780,000,000	\$1,040,000,000	\$1,300,000,000	\$1,560,000,000	\$1,820,000,000	\$2,080,000,000	\$2,340,000,000	\$2,600,000,000	\$2,860,000,000	\$3,120,000,000	
	\$54	\$540,000,000	\$810,000,000	\$1,080,000,000	\$1,350,000,000	\$1,620,000,000	\$1,890,000,000	\$2,160,000,000	\$2,430,000,000	\$2,700,000,000	\$2,970,000,000	\$3,240,000,000	
	\$56	\$560,000,000	\$840,000,000	\$1,120,000,000	\$1,400,000,000	\$1,680,000,000	\$1,960,000,000	\$2,240,000,000	\$2,520,000,000	\$2,800,000,000	\$3,080,000,000	\$3,360,000,000	
	\$58	\$580,000,000	\$870,000,000	\$1,160,000,000	\$1,450,000,000	\$1,740,000,000	\$2,040,000,000	\$2,340,000,000	\$2,640,000,000	\$2,940,000,000	\$3,240,000,000	\$3,540,000,000	
	\$60	\$600,000,000	\$900,000,000	\$1,200,000,000	\$1,500,000,000	\$1,800,000,000	\$2,100,000,000	\$2,400,000,000	\$2,700,000,000	\$3,000,000,000	\$3,300,000,000	\$3,600,000,000	

**State Sales Tax on Goods**  
is 2% and applied to a  
base of \$40 billion per  
year

**Total Size of Our  
Economy: \$130 Billion**

RECONSTRUCTING NEVADA FOR THE 21<sup>ST</sup> CENTURY

## Revenue Strategy Summary

<u>Element I</u>	<u>Element II</u>	<u>Element III</u>
Provide a Bridge that Allows State Government to Function Until Alternative Revenues Can Be Brought On-Line	Create a Nevada Transaction (Services) Tax and Lower the State's Existing Sales and Use Tax Rate	Modify the Business Tax Structure to Increase Equity, Decrease Disincentives to Employment and Maintain Regional Competitiveness

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## There Are Only So Many Ways to Tax Businesses

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## Option #1 Tax Businesses on Gross Receipts

- **Strengths**
  - Best reflects economy
  - Lowest tax rate
  - Predictable
  - Stable
  - High yield
- **Weaknesses**
  - Disparate impact on high-volume low-margin businesses
  - High degree of pyramiding
  - No relationship to profitability

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## Option #2 Tax Businesses on Net Profits

- **Strengths**
  - Fairness, recognizes differences in businesses by focusing on bottom line
  - Struggling businesses don't incur liability
  - Can be linked to federal tax returns
- **Weaknesses**
  - Highly cyclical (unreliable)
  - Administration and compliance can be cumbersome
  - Determination of deductions

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## Option #3 Selective Expense Taxes Like the Modified Business Tax

- **Strengths**
  - Easy to administer
  - Nexus between employment and service demand
- **Weaknesses**
  - Disparately impacts labor-intensive businesses
  - Creates a disincentive for employment
  - Creates a disincentive for higher wage payments
  - Does not reflect volume or performance
  - Don't pick up independent contractors (1099s)

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## Option #4 Business Margin Taxes

- **Strengths**
  - Equity, tax base reflects the economy
  - Stable and predictable
  - Low tax rate
  - Tied directly to federal tax returns
- **Weaknesses**
  - Potential to incur some pyramiding
  - Initial uncertainty



# How Might a Margin Tax Work in Nevada?

## Element #3A Margin Taxes

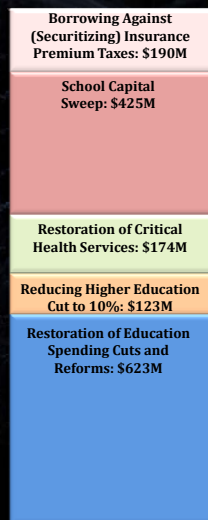
- Tax Rate: Not to Exceed 1%
- Exemption: First \$1 Million in Revenue (lowering the tax rate on most Nevada businesses)
- Tax Base, the Lesser of:
  - 70% of Total Revenue
  - Total Revenue Less Wages and Salaries Paid
  - Total Revenue Less Cost of Goods Sold
- To be administered, regulated and refined by the Nevada Department of Taxation



## Element #3B Phase Out the Modified Business Tax

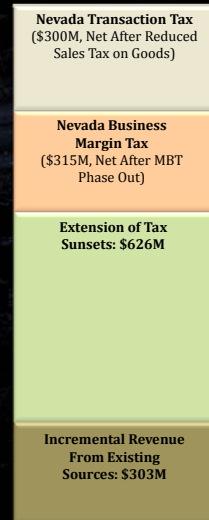
- Nevada Modified Business Tax is Phased Out Over a Two to Three-Year Period
- The Margin Tax Will Better Reflect the State's Current Economy and Adapt to Future Changes
- Intended to Eliminate the Disparities Created by Taxing Payroll
- Tax Will Be Designed to Reflect that Businesses Come in Many Shapes and Sizes

### Total Required Funding to Restore Cuts, Enhance Education and Address Structural Issues: \$1.5 B



Spending Elements

### Total Revenue Enhancements to Balance the State Budget: \$1.5 B



Revenue Elements

