

TO: Interested parties
FROM: Senator Horsford and Senator Leslie
RE: Key points on Democratic budget approach

We have a 1950's tax code and it simply doesn't fit our modern economy. The Democratic funding options introduced today are a compromise, they set Nevada on a thoughtful path to stability and position us for success.

Nevada has been working on these ideas for years – study after study – and we have been working on this comprehensive approach since the beginning of the session, taking ideas from the governor, legislators from both parties, and examples from other states.

Now is the time for reform. We cannot continue to support a broken system – and everyone knows the system is broken, Democrats and Republicans alike.

The options we have introduced for debate provide stability to the business community and stability for the state. If we don't have a long-term plan in government or policies that promote job creation, business can't have a long-term plan to grow their business and create jobs.

The governor uses \$1.1 billion dollars in one-shot money that will be gone next biennium. He has no plan to fill the next budget hole, except to hope for 12% economic growth – a completely unrealistic assumption based on past experience.

The revenue reform options introduced today [AB569 and amended SB491] restructure our revenue system to make it fairer, business friendly, and stable.

- The Economic Forum projected \$300 million in additional revenue. That brings the needed revenue down to \$1.2B.
- The money projected from the lifting of the sunsets is \$626M.
- That leaves \$571M needed to restore funding to education, vital social services, and prevent a funding hole for future legislatures created by the Executive Budget.
- The revenue from the transaction tax, which would go into effect January 2012, “buys down” the sales tax on goods. We have carefully accounted for the time it will take to implement these proposals so business can seamlessly adjust.
- Another element of tax revenue reform is that it phases out the Modified Business Tax, which is a disincentive for businesses to hire and also discourages paying employees more. The Governor offers no plan for the problems with the state's current revenue structure.
- In place of the Modified Business Tax, we reform the revenue code with the margins tax, which would exempt small businesses and would allow larger companies to tailor deductions to their specific business operation, providing maximum flexibility.

The time for studies is over. This is a time for action. Our school children need reform and a more secure future today, not four years from now. Our small businesses need tax relief now, not in four years.

Specific components recap:

1. Lift the sunsets on the Modified Business Tax, Local School Support Tax and state business license fee.

Provides revenue without creating a hole for the next Legislature.

Bridges the gap between the current tax structure and a broad, diverse tax structure.

2. Lower existing general sales tax rate and broaden the revenue code with a Transaction Tax on Services

Inapplicable to services for non-elective health care, services already subject to a state tax of equal or greater rate, services prohibited from taxation by federal law or the Nevada Constitution, or services that would make Nevada's tax system more regressive (e.g. utilities and rent).

Reduces reliance on taxes that are subject to economic downturns to better reflect our current and future service-based economy.

3. Replace the Modified Business Tax (which taxes payroll and is a disincentive to job creation) and institute the Nevada Margin Tax.

Phased in from 2011-2013 as the Modified Business Tax is phased out.

More equitable tax; exempts 65-70% of small businesses in Nevada, which are the engines of renewed economic growth.

Broadens the tax base to reflect Nevada's more diverse economy and does not penalize employers for adding employees or paying them more.

Less burdensome on small businesses.