TTARA

Texas Taxpayers and Research Association

400 West 15th Street, Suite 400, Austin, Texas 78701
Telephone: 512/472-8838 ★ FAX: 512/472-2636 ★ E-Mail: ttara@ttara.org ★ Website: www.ttara.org

March 19, 2014

Ms. Carole Vilardo
President
Nevada Taxpayers Association
2303 East Sahara Avenue, Suite 203
Las Vegas, Nevada 89104

Dear Carole:

You had asked me for thoughts as to the revenue that the proposed business margin tax might raise in Nevada as it is drafted for the November ballot. Based on an assessment of your ballot language and our experience in Texas, I would estimate the Nevada tax will raise somewhere from $725 million to $825 million annually.

As a former Texas chief revenue estimator, I caution that revenue forecasting is fraught with peril. Revenues can be impacted not just by business conditions, but also by how revenue departments interpret provisions of law. This will be an especially important issue with the margin tax. Not only is the statute vague in many areas, but the language on which the Nevada initiative is based dates back to 2008, very early in our experience with the tax. Texas has made a number of amendments to the tax since then, but the level of taxpayer confusion remains high, now 8 years after the tax was passed.

Adjusting for the sizes of our economies, the Nevada tax will be far more burdensome than the Texas tax for a number of reasons:

- the tax rates are twice, and in some cases four times higher than the Texas tax,
- the tax in Nevada applies to general partnerships and sole proprietorships—entities exempt in Texas,[1]
- the Nevada tax excludes a number of exemptions offered in Texas law: insurance companies (which are subject to an alternative tax), cooperatives, and several others,
- nor would the Nevada tax include Texas provisions favorable to certain industries, such as investment companies, health care providers, and a number of others.

To develop the set of estimates for Nevada, I relied on Texas' *Report of the Business Tax Advisory Committee*, of which I was a member. This report details revenues, taxes paid, and effective tax rates by industry. I adjusted these industry revenue amounts for the differences in law between the two states (using Texas' *Tax Exemptions & Tax Incidence*, published by our

[1] Texas made the policy decision that our franchise, or "margin" tax, would apply only to those formally registered types of business entities that receive liability protections under state law, such as corporations, limited partnerships and limited liability companies. We do not tax sole proprietorships or general partnerships.

Comptroller's Office in March 2013). I then applied these effective tax rates to industry level economic data for Nevada—both gross state product (as reported by the U.S. Department of Commerce) and total receipts (as reported by the U.S. Census Bureau), excluding casino revenues. These amounts were then reduced by the amount of credits for Nevada's modified business tax.

I am unable to evaluate the estimates Guinn Center because of a lack of detail provided in their analysis. I understand concerns about Texas' margin tax revenue being initially overestimated, but I based my calculations on actual Texas margin tax collections, rendering this issue moot.

I hope this is helpful. Please don't hesitate to contact me if you have any questions.

Sincerely,

Dale K. Craymer

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