

Nevada Revenue Plan

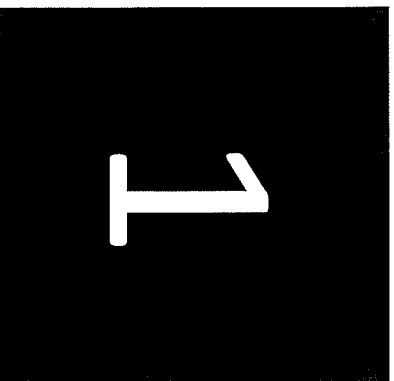
*a solution to fund Nevada's schools
and balance the state's budget*

Consolidated Revenue Plan

Three Elements, Each Designed to Broaden the State's Business Tax

Business

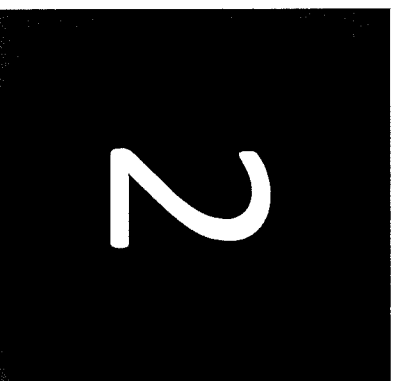
License Fee



Increase Nevada's current Business License Fee from \$200 to \$500 for corporations and \$200 to \$300 for all other business entities filing with Nevada's Secretary of State

Modified

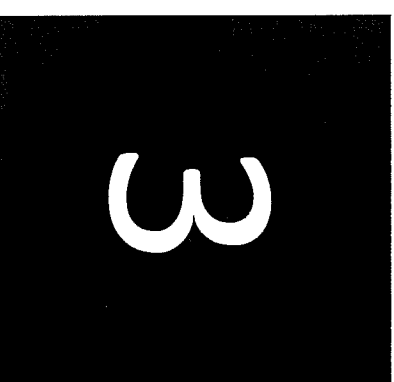
Business Tax



Increase the existing Modified Business Tax to 1.475% for businesses generally (2.0% for mining and financial institutions); reduce the maximum standard exemption from \$340,000 to \$200,000 per year; employer paid health care deduction remains; 50% credit for paid Commerce Tax

Commerce

Tax



Create an industry-specific, annual levy imposed on businesses with Nevada revenue of \$3.5 million or more; 50% of the tax may be used as a credit against the taxpayer's Modified Business Tax liability

Foundational Policy Considerations

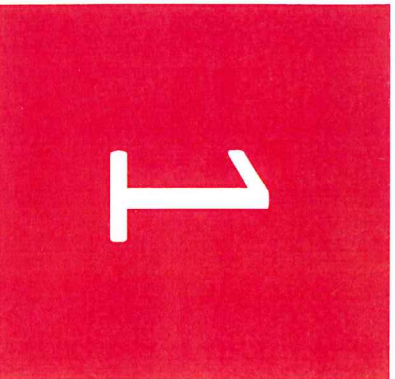
- **Consolidation of Concepts** | Plan reflects elements of the three primary revenue proposals considered by the Nevada State Legislature
- **Balancing Progress and Stability** | Plan limits reliance on more speculative sources of revenue, while at the same time expanding and diversifying the state's business tax base
- **Values Simplicity** | Simplifies both compliance and administration by reducing the number of filers and the number of filing events each year
- **Sufficient and Flexible** | Provides the revenue necessary to fund the state's evolving budget and needed education reforms

Consolidated Revenue Plan

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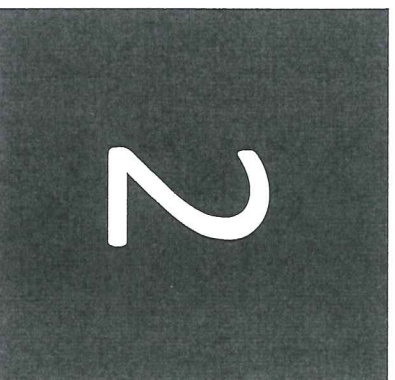
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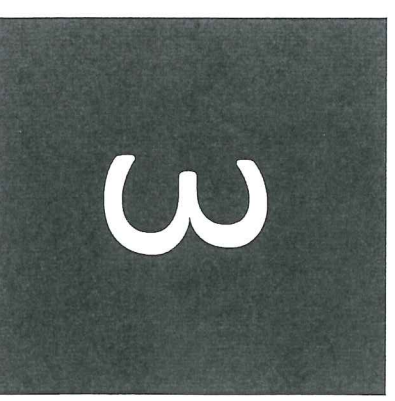
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1

Element #1 | Business License Fee

Strategy Summary:

Increase Nevada's current Business License Fee from \$200 to \$500 for corporation and \$200 to \$300 for all other business entities filing with Nevada's Secretary of State

Estimated Yield:

\$118M | \$46.3M (net new)

Policy Considerations:

Nevada's Business License Fee is currently the broadest source of business tax revenue in the state; the tax base includes more than 330,000 business entities

Consensus:

All three revenue proposals included some additional yield from the Business License Fee

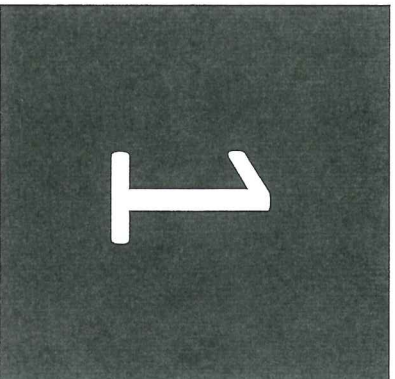
Other Issues:

- Administration remains with Secretary of State, annual fee, reduced compliance costs
- Yield reduced to reflect potential increase of fees, respecting analysis has yet to be provided
- Need to increase compliance rate for smaller businesses

Consolidated Revenue Plan

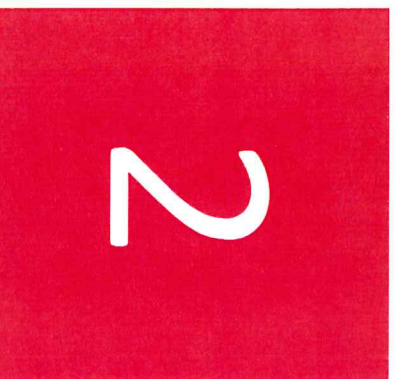
Three Elements, Each Designed to Broaden the State's Business Tax

**Business
License Fee**



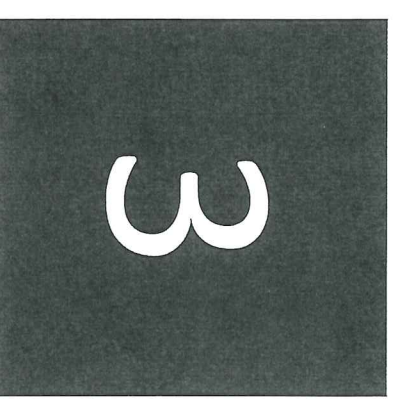
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**Modified
Business Tax**



Increase the existing Modified Business Tax to 1.475% for businesses generally (2.0% for mining and financial institutions); reduce the maximum standard exemption from \$340,000 to \$200,000 per year; employer paid health care deduction remains; 50% credit for paid Commerce Tax

**Commerce
Tax**



Create an industry-specific, annual levy imposed on businesses with Nevada revenue of \$3.5 million or more; 50% of the tax may be used as a credit against the taxpayer's Modified Business Tax liability

2

Element #2 | Modified Business Tax

Summary:

Increase the existing Modified Business Tax rate to 1.475%, reduce the maximum standard exemption from \$340,000 to \$200,000 per year; retain paid health care deduction; 50% credit for paid Commerce Tax; mining and financial institutions remain at 2.0%

Estimated Yield:

\$571M | \$516M (net of credit)

Policy Considerations:

Stable, predictable and known source of revenue; retaining health care deduction increases tax equity; lowering the standard exemption increases the number of taxpayers

Consensus:

Increases the number of businesses that will pay the tax, which was included in all proposed strategies; addresses concerns with collection timing

Other Issues:

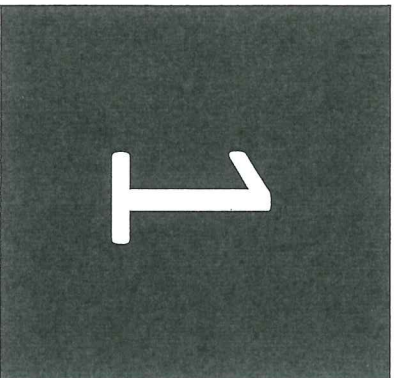
- Tax increase will be more significant for smaller, labor-intensive businesses, particularly those with payroll levels of less than \$500,000
- Alternative rates, albeit with underlying rationale, remain for financial institutions and mining companies

Consolidated Revenue Plan

Three Elements, Each Designed to Broaden the State's Business Tax

Business

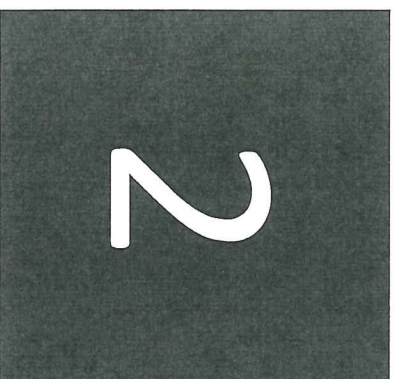
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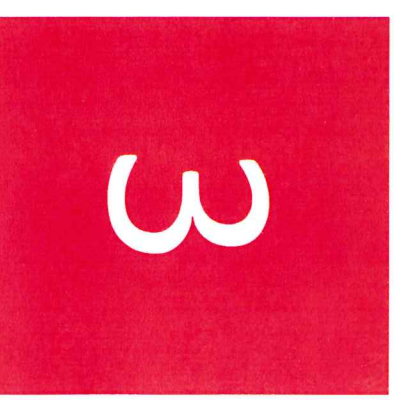
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Commerce

Tax



Create an industry-specific, annual levy imposed on businesses with Nevada revenue of \$3.5 million or more; 50% of the tax may be used as a credit against the taxpayer's Modified Business Tax liability

3

Element #3 | Commerce Tax

Summary:

Create an industry-specific, annual business levy imposed on Nevada revenues in excess of \$3.5 million; 50% of which may be credited against the Modified Business Tax; any collections in excess of the projected yield will be used to “buy down” the Modified Business Tax

Estimated Yield:

\$121M | \$60.7M (net of credit)

Policy Considerations:

Creates a broad-based business tax that reflects the diversity of Nevada’s economy; provides greater equity between larger capital-intensive and labor-intensive businesses; step toward reducing the in-state firm tax bias in the existing tax system

Consensus:

Balances a desire for tax reform with concerns over revenue yield; materially reduces administrative costs; shifts the burden to larger, more sophisticated taxpayers; builds in longer-term equity shift if revenues exceed expectations

Other Issues:

- Requires the creation of a new tax
- Tax base and credit balance will need to be closely monitored

Analysis of Tax Incidence

Summary Comparison of Tax Incidence

Includes Existing General Business Levies

Sector	Governor's		Armstrong-		Spearman		Consolidated	% of Total
	BLF Plan	% of Total	MBT Plan	% of Total	Business Fee	% of Total		
Agriculture	\$809,261	0.11%	\$1,139,256	0.15%	\$2,515,183	0.32%	\$1,138,601	0.15%
Mining	\$21,344,229	2.85%	\$22,098,422	2.84%	\$23,231,475	2.95%	\$23,218,795	3.07%
Utilities	\$11,471,769	1.53%	\$7,335,331	0.94%	\$18,943,730	2.40%	\$8,205,289	1.09%
Construction	\$32,810,116	4.37%	\$43,987,083	5.66%	\$36,882,187	4.68%	\$41,303,503	5.47%
Manufacturing	\$34,487,582	4.60%	\$37,166,055	4.78%	\$50,602,281	6.42%	\$35,949,515	4.76%
Wholesale Trade	\$34,502,253	4.60%	\$27,095,547	3.48%	\$76,259,065	9.67%	\$29,493,992	3.91%
Retail Trade	\$92,282,362	12.30%	\$74,006,663	9.52%	\$169,417,071	21.49%	\$79,192,295	10.49%
Transportation	\$21,688,435	2.89%	\$23,411,618	3.01%	\$25,013,404	3.17%	\$22,502,375	2.98%
Warehousing and Storage	\$4,433,705	0.59%	\$5,780,661	0.74%	\$2,861,909	0.36%	\$5,135,060	0.68%
Publishing, Software, Data Processing	\$11,609,709	1.55%	\$13,164,665	1.69%	\$5,418,424	0.69%	\$12,654,015	1.68%
Telecommunications	\$9,648,324	1.29%	\$6,418,594	0.83%	\$7,581,036	0.96%	\$6,437,510	0.85%
Financial Activities	\$34,063,291	4.54%	\$33,452,455	4.30%	\$34,757,115	4.41%	\$38,691,641	5.12%
Real Estate	\$25,337,697	3.38%	\$15,866,562	2.04%	\$27,392,191	3.47%	\$19,057,218	2.52%
Professional Services	\$42,525,009	5.67%	\$50,580,317	6.51%	\$35,326,367	4.48%	\$50,104,768	6.63%
Management of Companies	\$25,816,802	3.44%	\$19,083,232	2.45%	\$36,716,353	4.66%	\$20,943,714	2.77%
Admin. and Support Services and Waste Mgmt.	\$35,057,362	4.67%	\$49,775,095	6.40%	\$16,209,387	2.06%	\$47,002,738	6.22%
Educational Services	\$2,356,917	0.31%	\$3,071,658	0.40%	\$1,168,685	0.15%	\$3,017,673	0.40%
Health Services	\$54,362,459	7.25%	\$62,618,260	8.05%	\$35,775,960	4.54%	\$60,490,970	8.01%
Arts, Entertainment and Recreation	\$16,253,598	2.17%	\$15,563,777	2.00%	\$11,125,489	1.41%	\$15,772,424	2.09%
Accommodation	\$83,857,572	11.18%	\$94,405,944	12.14%	\$46,339,476	5.88%	\$84,965,176	11.25%
Food Services (includes restaurants)	\$50,237,070	6.70%	\$60,382,112	7.77%	\$23,813,828	3.02%	\$57,083,914	7.56%
Other Services	\$7,219,252	0.96%	\$11,081,978	1.43%	\$9,985,772	1.27%	\$11,083,389	1.47%
Unclassified	\$914,144	0.12%	\$117,750	0.02%	\$2,579,334	0.33%	\$565,827	0.07%
Non-Employer Businesses/Foreign Filers	\$97,090,564	12.94%	\$99,919,898	12.85%	\$88,482,282	11.22%	\$81,149,971	10.75%
Total	\$750,179,482	100.00%	\$777,522,933	100.00%	\$788,398,002	100.00%	\$755,160,374	100.00%

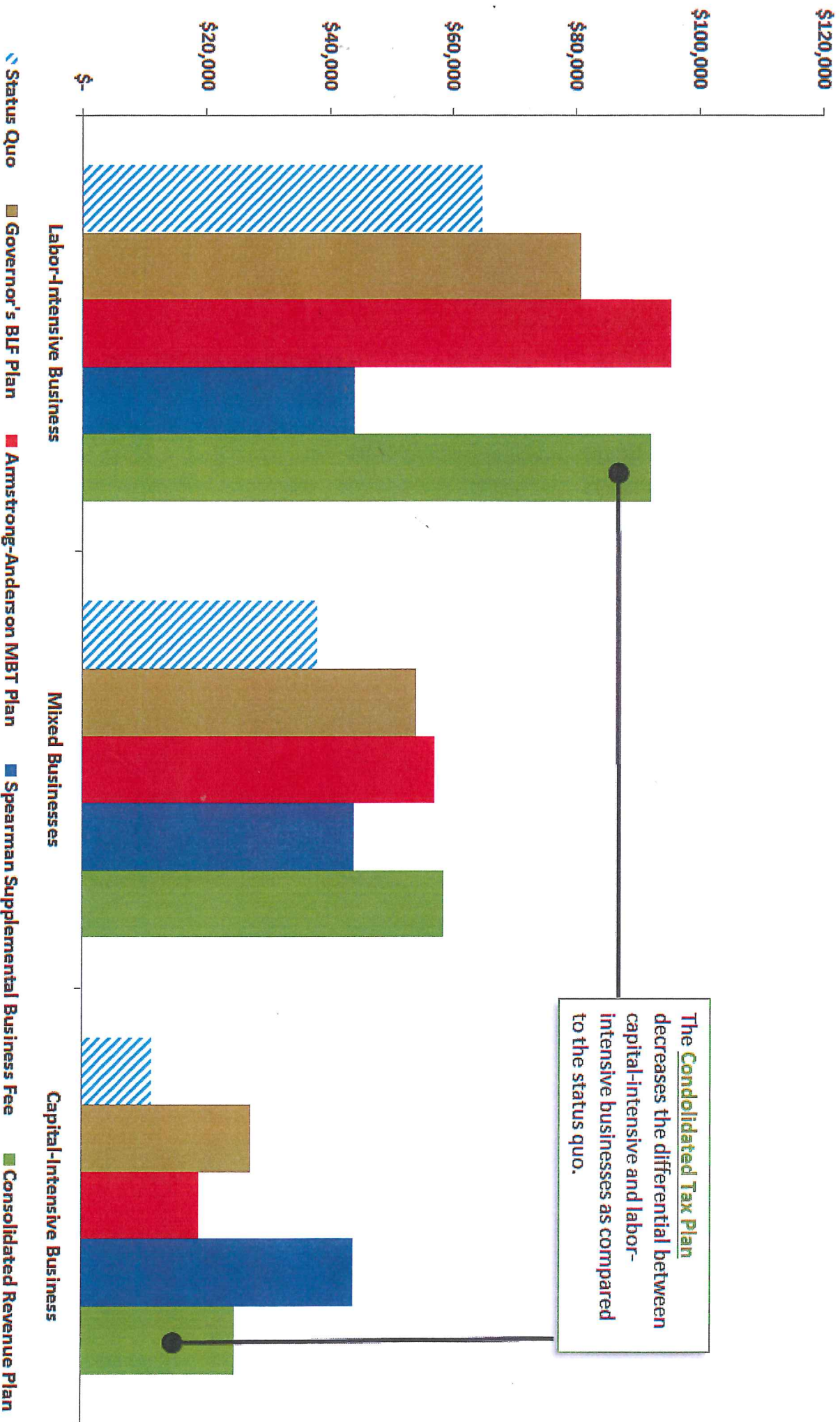
Summary Comparison of Incremental Tax Liability

Industry Totals and Industry as a Percent of Total

Sector	Governor's		Armstrong-		Spearman		Total	
	BLF Plan	% of Total	MBT Plan	% of Supplemental Business Fee	Total Revenue Plan	% of Consolidated Total	Total	% of Total
Agriculture	\$211,364	0.08%	\$541,359	0.19%	\$1,917,285	0.65%	\$540,703	0.21%
Mining	\$7,608,527	2.96%	\$8,362,719	2.94%	\$9,495,772	3.22%	\$9,483,092	3.62%
Utilities	\$6,501,935	2.53%	\$2,365,497	0.83%	\$13,973,896	4.73%	\$3,235,455	1.23%
Construction	\$6,158,072	2.40%	\$17,335,040	6.10%	\$10,230,143	3.46%	\$14,651,460	5.59%
Manufacturing	\$10,789,468	4.20%	\$13,467,942	4.74%	\$26,904,167	9.11%	\$12,251,401	4.68%
Wholesale Trade	\$18,331,192	7.13%	\$10,924,486	3.84%	\$60,088,004	20.35%	\$13,322,931	5.08%
Retail Trade	\$44,712,246	17.39%	\$26,436,547	9.30%	\$121,846,955	41.26%	\$31,622,179	12.07%
Transportation	\$6,541,662	2.54%	\$8,264,845	2.91%	\$9,866,631	3.34%	\$7,355,602	2.81%
Warehousing and Storage	\$879,790	0.34%	\$2,226,747	0.78%	(\$692,006)	-0.23%	\$1,581,146	0.60%
Publishing, Software, Data Processing	\$3,004,579	1.17%	\$4,559,535	1.60%	(\$3,186,706)	-1.08%	\$4,048,885	1.55%
Telecommunications	\$5,466,401	2.13%	\$2,236,671	0.79%	\$3,399,113	1.15%	\$2,255,587	0.86%
Financial Activities	\$1,633,621	0.64%	\$1,022,784	0.36%	\$2,327,445	0.79%	\$6,261,971	2.39%
Real Estate	\$15,484,597	6.02%	\$6,013,462	2.11%	\$17,539,091	5.94%	\$9,204,118	3.51%
Professional Services	\$11,767,998	4.58%	\$19,823,306	6.97%	\$4,569,356	1.55%	\$19,347,757	7.38%
Management of Companies	\$12,644,049	4.92%	\$5,910,478	2.08%	\$23,543,599	7.97%	\$7,770,960	2.97%
Admin. and Support Services and Waste Mgmt.	\$2,957,477	1.15%	\$17,675,210	6.21%	(\$15,890,499)	-5.38%	\$14,902,853	5.69%
Educational Services	\$477,113	0.19%	\$1,191,854	0.42%	(\$711,119)	-0.24%	\$1,137,869	0.43%
Health Services	\$14,979,821	5.83%	\$23,235,622	8.17%	(\$3,606,677)	-1.22%	\$21,108,332	8.06%
Arts, Entertainment and Recreation	\$6,048,573	2.35%	\$5,358,753	1.88%	\$920,464	0.31%	\$5,567,399	2.12%
Accommodation	\$23,190,811	9.02%	\$33,739,184	11.86%	(\$14,327,284)	-4.85%	\$24,298,415	9.27%
Food Services (includes restaurants)	\$10,797,808	4.20%	\$20,942,850	7.36%	(\$15,625,435)	-5.29%	\$17,644,652	6.73%
Other Services	\$1,133,349	0.44%	\$4,996,076	1.76%	\$3,899,869	1.32%	\$4,997,487	1.91%
Unclassified	\$837,560	0.33%	\$41,166	0.01%	\$2,502,751	0.85%	\$489,243	0.19%
Non-Employer Businesses/Foreign Filers	\$44,908,282	17.47%	\$47,737,616	16.78%	\$36,300,000	12.29%	\$28,967,689	11.05%
Total	\$257,066,297	100.00%	\$284,409,748	100.00%	\$295,284,816	100.00%	\$262,047,188	100.00%

Comparative Analysis of Alternative Revenue Strategies

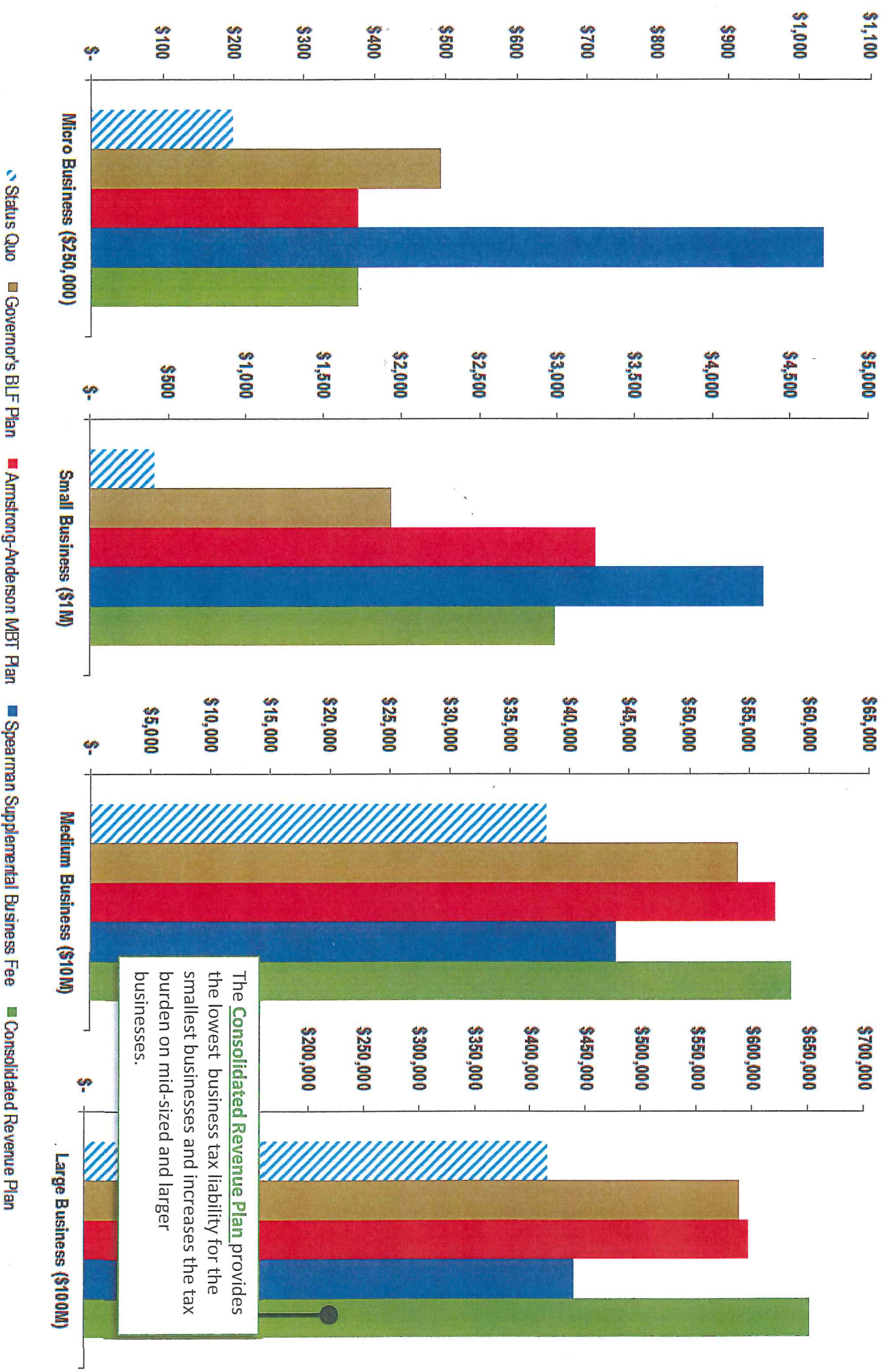
Hypothetical \$10 Million Labor-Intensive, Capital-Intensive and Mixed Businesses



The Consolidated Tax Plan decreases the differential between capital-intensive and labor-intensive businesses as compared to the status quo.

Comparative Analysis of Alternative Revenue Strategies

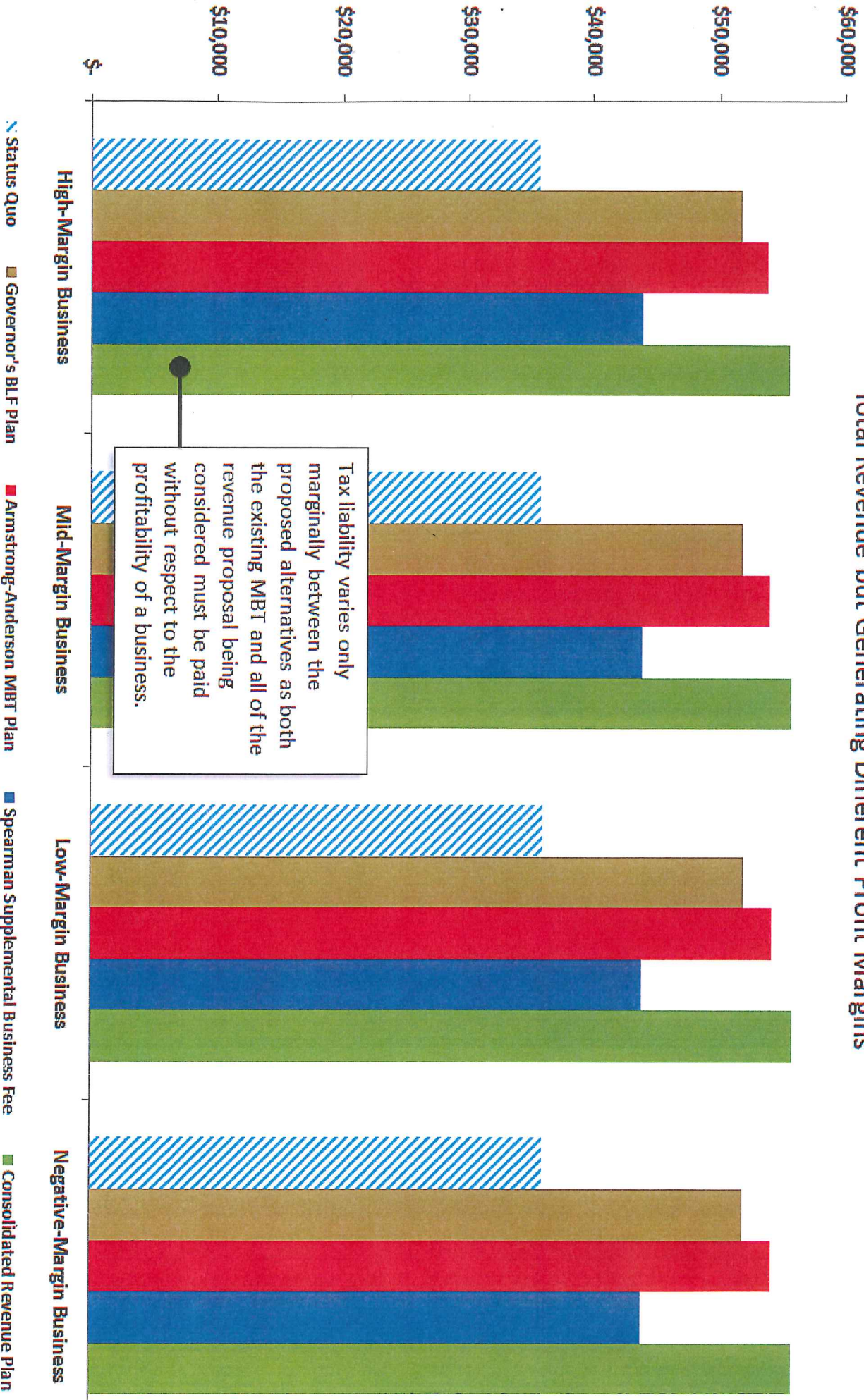
Comparative Analysis of Hypothetical Firms Generating Between \$250,000 and \$100 Million in Total Revenue and Earning Similar Profit Margins



The Consolidated Revenue Plan provides the lowest business tax liability for the smallest businesses and increases the tax burden on mid-sized and larger businesses.

Comparative Analysis of Alternative Revenue Strategies

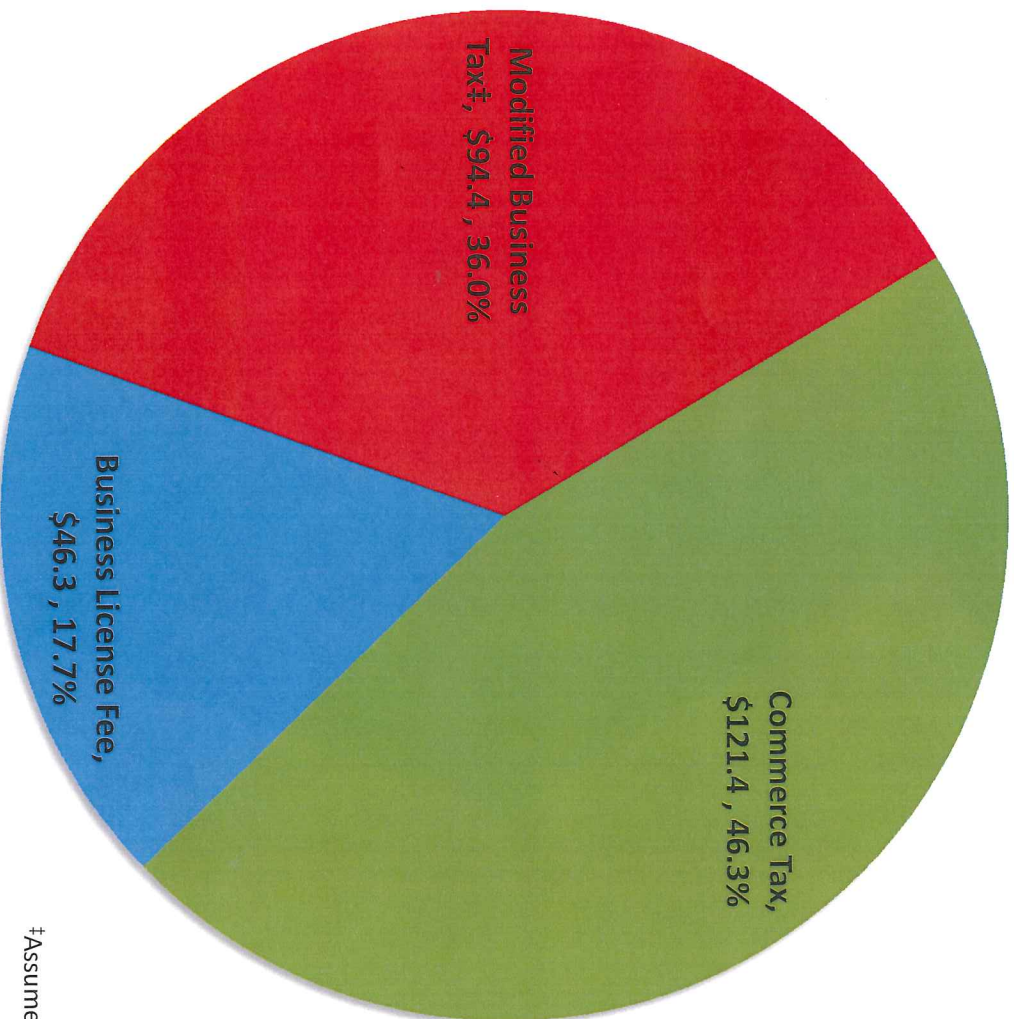
Comparative Analysis of Hypothetical Firms Generating \$10 Million in Total Revenue but Generating Different Profit Margins



Tax liability varies only marginally between the proposed alternatives as both the existing MBT and all of the revenue proposal being considered must be paid without respect to the profitability of a business.

Consolidated Revenue Plan

Summary of Incremental Nevada Businesses Taxes
Excluding Existing General Business Taxes/Fees[†]



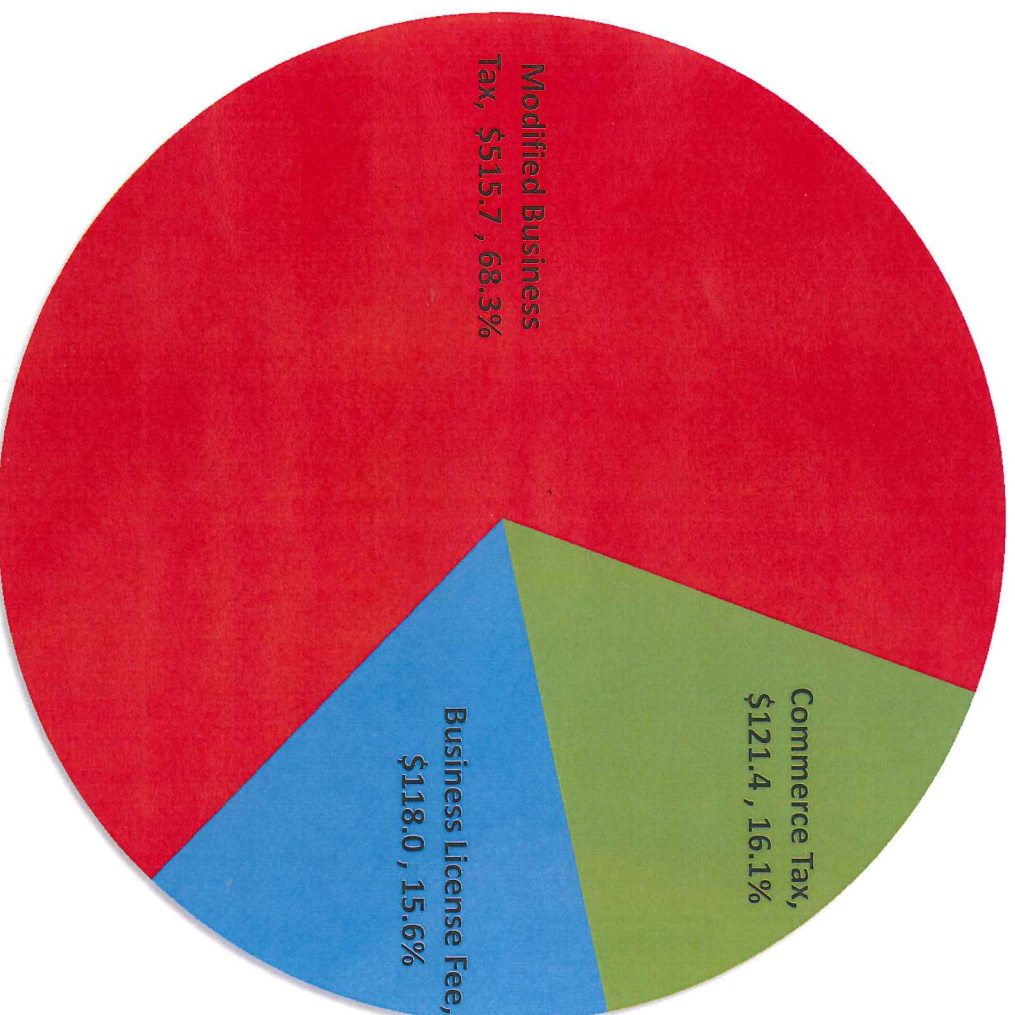
Total
\$262.0M

[†]Annual values expressed in millions
[†]Assumes a \$60.7 million tax credit for paid Commerce Tax

Consolidated Revenue Plan

Summary of Nevada Businesses Taxes

Including Existing General Business Taxes/Fees[†]



Total

\$755.2M

[†]Annual values expressed in millions