

NEVADA COMMERCE TAX OVERVIEW

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SB 483

- “Nevada Revenue Plan”
- Signed June 2015, effective July 1, 2015
- Proposed to raise \$1.15-1.4 billion to fund the Governor’s budget, including educational programs
 - Increased business license fee from \$200 to \$500 for corporations, others to remain at \$200
 - Increased MBT rate from 1.17% to 1.475% for general businesses, wage threshold lowered from \$85,000 to \$50,000 per quarter. Mining and financial companies rate at 2%. Can still deduct health care from wages
 - Introduced commerce tax on gross revenue of business entities with revenues greater than \$4 million. Businesses can deduct 50% of their commerce tax payment from their MBT liability
 - Made changes to implementation of net proceeds of mines tax
 - Extended “sunset” of 0.35% Local School Support sales/use tax rate
 - Increased tax on cigarettes

Commerce Tax

- As approved-Department of Taxation currently holding workshops to finalize tax regulations
- Annual commerce tax on each business entity engaged in business in Nevada
- Tax rates vary from 0.051% to 0.331% depending on the industry in which the business entity is primarily engaged
- Allows a \$4,000,000 deduction against gross receipts
- Tax is imposed on each ‘business entity’-corporation, partnership, proprietorship, etc.
- Tax year July 1 to June 30
- First report is due 45 days after the end of the fiscal year ending June 30, 2016
- Taxpayers may request a 30-day extension. No penalty is assessed for payment during the 30-day period, interest is imposed during this period

Commerce Tax-More Detail

- Gross revenue is defined as the total amount realized by a business entity from engaging in a business in Nevada that contributes to the production of gross income
- No deduction for cost of goods sold, payroll or other expenses incurred
- Multiple gross revenue deductions:
 - Interest income, dividends and distributions from corporations, distributive or proportionate shares of receipts, income from a pass-through entity, receipts from a hedging transaction, amount of gross proceeds used to calculate the net proceeds of minerals tax, gaming revenue used to calculate gaming licenses tax, amount of the liquor excise tax, revenue (direct premiums) relating to certain insurance taxes paid, certain payments (e.g., from Medicaid and Medicare) received by a health care provider or health care institution, certain payments received by an employee leasing company, bad debts expensed for the purposes of federal income taxation, returns and refunds to customers, pass-through revenue, certain income from a passive entity, and more

Commerce Tax-Calculation

- Designate business category (based on North American Industry Classification System-NAICS codes) in which taxpayer is primarily engaged
 - If multiple categories-one in which the highest percentage of Nevada gross revenue is generated
 - Cannot change business category without the Department of Taxation's approval
- Calculate July 1 to June 30 gross revenue after all exclusions and deductions
- Determine portion of adjusted gross revenue generated in Nevada-goods and services sold in, shipped from and to, located, or used to the benefit of the purchaser in the State
- Subtract \$4,000,000 allowance
- Multiply by tax rate corresponding to business category.
 - If the entity does not match any category outlined in SB 483, the "unclassified" rate of 0.128% can be used
- A year after commerce tax implementation, taxpayers can deduct 50% of commerce tax payment for the previous year from the current year's MBT liability

Impacts of Commerce Tax

- Analysis by EEC with cooperation from the Center for Regional Studies at UNR
- Impact of the Commerce Tax, new MBT rates, and Commerce Tax credit against MBT on business entities in Nevada by major and minor industry sectors
- No revenue-based tax currently in the State- business revenue data is not available
 - State revenue by industry estimated using a combination of local and national sources
- Estimates in 2016 dollars
- Entities with no employees are excluded-likely not impacted by tax
- Tax exempt industries and entities are excluded from the analysis
- “Snapshot” analysis-does not consider changes in consumer or business behavior
- Analysis does not include all deductions-impacts on health care, insurance, finance, and other industries may be overstated
- Analysis includes entities operating in State in 2013, may exclude some out-of-state companies with Nevada revenues-impacts may be understated

Impacts-Methodology

- **Gross Receipts:**
 - 2007/2012 Economic Census revenue data for Nevada by major industry group, augmented by IRS national tax return data (Utilities and Unclassified) and 2012 USDA Census of Agriculture (Agriculture) data
 - Inflated to 2016 using Bureau of Economic Analysis actual GDP by State by major industry group data for Nevada and national GDP projections by industry group
 - Included non-operating deductions (interest on government obligations, interest income, bad debts, and other non-taxable revenues), estimated using IRS 2011 Corporation Source Book of Statistics of Income data
 - Included industry specific deductions (gaming revenue, gross proceeds of minerals/royalties and liquor tax), estimated using data available from Department of Taxation and Nevada Gaming Control Board
 - Did not include deductions for health care entities receiving Medicaid, Medicare and other payments, various insurance premiums and other industry-specific deductions as data regarding these deductions is unavailable
 - Analysis overestimates the commerce tax liability for these industries

Impacts-More Methodology

- Nevada Gross Receipts: Revenues generated in Nevada (situated to Nevada) estimated using IMPLAN (IMPact Analysis for PLANning) input-out model
 - IMPLAN provides import/export data by major industry, adjusted gross receipts modified to exclude exports, as these are expected to generate revenue outside of the State and are not taxable
- Taxable NV Gross Receipts: Nevada gross receipts minus \$4,000,000 allowance
- Commerce Tax Liability: Taxable NV gross receipts * tax rate by major industry
 - No tax rate provided for NAICS 519-Other information services in SB 483, unclassified rate is used
- MBT Tax Liability:
 - Estimated 2016 wages by major industry group adjusted by health care deduction ratios as estimated by Center for Regional Studies
 - Used 1.475% for general business, 2% for financial and mining entities, \$200,000 annual deduction
- MBT Credit: If an MBT liability exists, it is offset by a credit of 50% of estimated Commerce Tax Liability
- Total Impact: Commerce Tax Liability + MBT Tax Liability –Credit to MBT

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Impacts-Findings

*Impact estimates are overstated as they do not include deductions for insurance premiums, Medicare/Medicaid and other non-taxable revenues per SB 483. All amounts in 2016 dollars.

NAICS	Description	Total			Impacted			%	%	%
		# of Business Entities	# of Establishments	Estimated Gross Receipts	# of Business Entities	# of Establishments	Estimated Gross Receipts	Impacted Business Entities of Total	Impacted Establishments of Total	Impacted Gross Receipts of Total
22	Utilities	33	100	\$ 12,891,651,733	30	97	\$ 12,888,915,915	90.91%	97.00%	99.979%
44	Retail trade	3,189	6,040	39,666,495,826	752	3,499	36,116,254,195	23.58%	57.93%	91.050%
42	Wholesale trade	4,647	5,008	34,811,331,777	1,041	1,393	29,456,679,917	22.40%	27.82%	84.618%
23	Construction	5,710	5,947	17,110,441,160	898	1,114	13,347,856,748	15.73%	18.73%	78.010%
32	Manufacturing	518	563	5,100,015,563	80	113	3,494,636,243	15.44%	20.07%	68.522%
31	Manufacturing	277	302	2,147,351,438	40	62	1,600,795,614	14.44%	20.53%	74.547%
45	Retail trade	1,592	2,159	11,938,837,011	177	702	10,220,385,081	11.12%	32.52%	85.606%
71	Arts/entertainment/recreation	1,291	1,574	4,678,911,086	140	411	3,224,522,704	10.84%	26.11%	68.916%
51	Information	1,083	1,241	4,100,646,702	105	249	3,194,206,461	9.70%	20.06%	77.895%
62	Health care/social assistance*	5,667	6,392	16,647,057,758	484	1,168	12,703,298,930	8.54%	18.27%	76.310%
48	Transportation/warehousing	1,241	1,363	4,934,387,186	99	177	3,823,186,922	7.98%	12.99%	77.480%
21	Mining	260	340	9,793,991,295	20	68	7,202,090,763	7.69%	20.00%	73.536%
52	Finance and insurance*	3,175	4,418	12,475,982,490	233	1,342	10,166,605,506	7.34%	30.38%	81.489%
72	Accommodation/food services	3,947	5,295	34,831,659,206	280	1,367	29,802,218,181	7.09%	25.82%	85.561%
49	Transportation/warehousing	483	543	2,264,413,066	33	81	1,848,706,346	6.83%	14.92%	81.642%
11	Agriculture	274	315	882,406,817	18	31	348,975,323	6.57%	9.84%	39.548%
56	Administrative/waste management	4,923	6,731	8,113,061,615	250	2,003	5,526,193,305	5.08%	29.76%	68.115%
53	Real estate	3,162	3,946	6,417,617,942	145	838	4,027,009,564	4.59%	21.24%	62.749%
33	Manufacturing	988	1,057	12,523,964,577	41	67	7,734,153,601	4.15%	6.34%	61.755%
54	Professional/technical services	9,497	9,994	9,076,945,169	334	784	5,094,985,264	3.52%	7.84%	56.131%
61	Educational services	788	806	556,416,195	27	39	305,336,624	3.43%	4.84%	54.876%
81	Other services	3,331	3,570	3,014,710,651	108	313	1,350,182,231	3.24%	8.77%	44.786%
99	Unclassified	764	764	669,169,836	14	14	160,211,698	1.83%	1.83%	23.942%
55	Management of companies	1,502	2,394	683,264,234	7	23	219,731,649	0.47%	0.96%	32.159%
Total		58,342	70,862	\$ 255,330,730,332	5,356	15,955	\$ 203,857,138,785	9.18%	22.52%	79.840%

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Impacts-Findings

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NAICS	Description	Taxable NV Gross Receipts	Estimated Commerce Tax	Estimated MBT Tax	Commerce Tax Credit	Adjusted MBT Tax	Total Impact	Average Commerce Tax/ Entity	Minimum Commerce Tax/ Entity	Maximum Commerce Tax/ Entity
22	Utilities	\$ 9,740,457,143	\$ 13,247,022	\$ 6,478,183	\$ 6,623,173	\$ 548,815	\$ 13,795,837	\$ 441,567	\$ 158	\$ 5,072,591
45	Retail trade	7,077,836,386	7,856,398	11,755,203	3,928,199	7,827,004	15,683,403	44,386	135	932,902
44	Retail trade	29,658,883,166	32,921,360	40,881,727	16,460,680	24,421,047	57,342,407	43,778	2	5,133,751
62	Health care/social assistance*	10,672,432,316	20,277,621	54,035,380	10,138,811	43,896,569	64,174,191	41,896	17	1,823,949
51	Information	2,305,083,749	4,204,826	8,114,728	2,102,413	6,012,315	10,217,141	40,046	72	611,514
49	Transportation/warehousing	985,769,826	1,265,417	7,942,259	632,709	7,309,551	8,574,968	38,346	54	472,140
53	Real estate	1,601,207,485	4,003,019	9,777,180	2,001,509	7,775,670	11,778,689	27,607	62	462,265
52	Finance and insurance*	5,398,751,401	5,992,614	29,792,103	2,996,307	26,795,796	32,788,410	25,719	27	881,077
56	Administrative/waste management	3,640,794,762	5,693,352	25,872,457	2,846,676	23,025,781	28,719,133	22,773	15	834,073
72	Accommodation/food services	3,223,386,639	6,330,042	99,013,575	3,165,021	95,848,554	102,178,596	22,607	13	272,960
71	Arts/entertainment/recreation	1,180,676,395	2,833,623	8,118,714	1,416,812	6,701,903	9,535,526	20,240	90	447,724
61	Educational services	189,597,280	532,768	1,911,205	266,384	1,644,821	2,177,590	19,732	417	91,323
33	Manufacturing	880,089,853	800,882	12,177,377	400,441	11,776,936	12,577,818	19,534	38	184,562
42	Wholesale trade	18,404,647,387	18,588,694	23,502,284	9,294,347	14,207,937	32,796,631	17,857	3	825,193
54	Professional/technical services	3,204,491,479	5,800,130	27,114,021	2,900,065	24,213,956	30,014,086	17,366	1	795,495
48	Transportation/warehousing	1,190,638,914	1,394,555	15,983,201	697,277	15,285,923	16,680,478	14,086	5	212,684
31	Manufacturing	458,857,817	417,561	2,449,665	208,780	2,240,885	2,658,445	10,439	6	72,337
81	Other services	677,146,417	961,548	3,886,925	480,774	3,406,151	4,367,699	8,903	97	159,629
23	Construction	9,565,342,791	7,939,235	36,353,756	3,969,617	32,384,139	40,323,373	8,841	2	325,599
32	Manufacturing	775,058,625	705,303	5,285,316	352,652	4,932,664	5,637,968	8,816	34	45,336
99	Unclassified	64,688,898	82,802	167,701	41,401	126,300	209,102	5,914	13	44,339
11	Agriculture	102,134,105	64,344	445,499	32,172	413,327	477,671	3,575	62	20,193
21	Mining	114,947,920	58,623	18,642,958	29,312	18,613,646	18,672,269	2,931	7	22,528
55	Management of companies	12,827,980	17,574	13,447,665	8,787	13,438,878	13,456,452	2,511	137	6,136
	Unimpacted Industries	-	-	98,356,460	-	98,356,460	98,356,460	-	-	-
Total		\$ 111,125,748,733	\$ 141,989,314	\$ 561,505,542	\$ 70,994,319	\$ 491,205,028	\$ 633,194,342	\$ 26,510	\$ 1	\$ 5,133,751

Conclusion

- Part of a plan to fund Governor's budget, including educational programs
- Estimated to raise approximately \$142 million in revenue, approximately \$71 million (in 2016 dollars) when Commerce Tax credit deducted-impacts 9.2% of all Nevada business entities
- Compared to other options
 - Margins Tax:
 - \$4 million allowance, instead of \$1 million threshold with taxation on entire amount
 - No Cost of Goods Sold (COGS) or payroll deductions, reduces auditing time and costs
 - Tax rates vary across industries in an attempt to account for differences in operations
 - Applied to a wider base of companies, compared to excise taxes, results in diversification and lower tax rate
 - Provides certainty for companies relocating to the area, rather than a promise of a tax to come
 - Encourages exports and taxes out-of-state companies
- It is a tax
 - New tax: regulation, tax forms, staffing, auditing, timing, revisions (NAICS 519), etc.
 - Companies with revenues below \$4 million still have to file a return
 - Gross receipt taxes are less popular than net income taxes for businesses
 - Uncertainty regarding NAICS codes
 - Encourage companies to form multiple entities to keep revenues under \$4 million