

# TAX TOPICS

A Publication of the Nevada Taxpayers Association serving the citizens of Nevada since 1922

ISSUE 3-07

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## HERE WE GO AGAIN - REVENUE SHORTFALLS AND TAX INITIATIVES

### Revenue Shortfall Equals Call for New Taxes

A slowing economy brought about in large part home foreclosures and higher gas prices has resulted in lower than projected revenues. That in turn has led to calls for the imposition of a “broad-based” business tax, mostly notably by University Chancellor Jim Rogers and MGM chief Terry Lanni. While the most frequently and publicly mentioned tax is an income tax, there is also mention of a gross receipts tax (shades of the ACR 1 Governor’s Tax Study and the 2003 session legislation).

Missing from most discussions is a reality check as to why there is a revenue shortfall. It doesn’t take a class in economics 101 to know that during an economic slowdown there will be a shortfall in revenue due to less spending by consumers and business. It is counterintuitive to believe that raising a tax rate or imposing a new tax is going to solve the problem. It only increases the burden to be absorbed by people already feeling the effects of the slowdown to say nothing of the fact that the same hue and cry for more/new taxes. The reality is that there will be periodic economic slowdowns that reduce the amount of revenue received by government and cause reductions in spending. Increasing rates or imposing new taxes, contrary to popular belief does make a government immune from these slowdowns.

Another fallacy is that a corporate income tax will solve revenue problems. It just isn’t so. You need only monitor the quarterly reports on states’ revenue by the Rockefeller Institute to see that revenues from corporate income taxes are as volatile and in many cases more volatile than sales tax revenues. Over time the corporate income tax also become more difficult to administer and comply with as states (looking for more revenue) de-couple from the federal income tax provisions.

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### Tax Initiatives - Playing to Populist Ideas

It is unfortunate that the California mentality of taxing and spending by initiative has gained such a foothold in Nevada as witnessed by the four initiatives that have been filed as of this writing.

To date, three initiatives have been filed to increase the State’s gross gaming tax and one initiative has been filed for a California style Prop 13.

The first gaming tax initiative titled “Save Our Schools With Additional Funding” was filed by the Teachers’ Union. The next two initiatives to increase the gross gaming tax were filed by Las Vegas attorney Kermit Waters. They are titled “It’s Time For Gaming’s Fair Share” and “It’s Time For Gaming’s Fair Share and Eliminate Property Taxes.”

The latest initiative is a re-filing (with corrections) by former Assemblywoman Sharon Angle of her “Property Tax Reform Initiative for Nevada,” which she withdrew on October 4, 2007 for various reasons.

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*Revenue Shortfall continued from page 1*

Unfortunately that doesn't stop the call for new taxes and more tax studies. The chart on page 3 is a list of the general tax studies that have been conducted in Nevada since 1959. Not included in this list are specific tax studies related to: lotteries; gaming, highway funding, banks and other financial institutions, aircraft, gaming, electric generation, net proceeds of minerals, geothermal resources, distribution of revenue; or studies to fund specific agencies or functions such as K-12, juvenile judicial services, fish and game, cities and counties, etc.

As is currently the case, most of the general tax studies were also called for during periods when a revenue shortfall existed.

It is hard not to wonder why the same fervor used by proponents of additional taxes seems to be missing in any discussion on the spending side of the fiscal equation whether it is reducing some enhancement, establishing base priorities or instituting more efficient methods to track and spend revenues.

NTA will have more to say about the expenditure side of the equation in future publications.

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*Tax Initiatives continued from page 1*

The Constitution sets the framework for the administration and policies of the state, it should not be used as a statute is used - - - to provide specific details which implement the provisions of the Constitution.

It is an unassailable fact that any tax legislation will result in unforeseen consequences. Just look at SB 8 of the 2003 session, which required both major regulations to be adopted to implement the various tax provisions and statutory changes by the 2005 Legislature.

Equally disastrous are the earmarking provisions contained in the three gaming tax initiatives.

*Continued next column*

California, Oregon and Colorado which all have initiatives that were approved to earmark spending have been responsible for major reductions in other categories of spending when revenues did not materialize as anticipated. In fact, in California which has had an abundance of initiatives that dictate spending their Legislature has control only on approximately 20 percent of their general fund budget.

### **NTA Takes Positions On The Initiatives**

In a survey of the Association's Board of Directors the Board overwhelmingly opposed all 4 initiatives as they have unintended consequences. Dealing with these unintended consequences created by Constitutional language requires a five year process to make the necessary corrections. In the case of the three gaming tax initiatives, an additional problem is created with the proposed amendment to the Constitution --- the earmarking of expenditures. Again, it is an unassailable fact that during economic slowdowns the earmarked expenditures which must be held harmless in the face of declining revenues will require substantial cuts in non-earmarked government expenditures. Further it serves to remove the ability of either or both the Governor and Legislators from prioritizing expenditure cuts.

The following taken from the book a *Fiscal Agenda for Nevada*, edited by Robert Ebel articulates best the reasons for **not** using the constitution to write tax law:

*"... writing specific tax law in the constitution reduces needed policy flexibility and often leads to consequences that were not intended even by the proponents of an amendment. . . . The representative form of democracy should be relied upon for making tax policy. Through a process of research, analysis, and public debate, elected officials can design tax policies that effectively deal with changing conditions. . . . Further use of the constitution for writing specific tax law should be avoided."*

(Editor's Note: An analysis of the four petitions is currently being performed by NTA staff. It will appear on our website by the end of January.)

#### **PLEASE NOTE:**

**The Date for NTA's General Membership Meeting and Luncheon has been changed to February 19, 2008.**

## GENERAL TAX STUDIES

<p><b>1959 - SB 97</b></p> <p>This bill appropriated \$50,000 for the study and also created a Tax Study Group to oversee the work of the consultants.</p>	<p>Financing State &amp; Local Government in Nevada by R.S. Zubrow, R.L Decker, E.H. Plank.</p> <p>Published in hardcover.</p>
<p><b>1966 Special Session - SCR 8</b></p>	<p>Study of General Fund Revenues by Lybrand, Ross Bros. and Montgomery</p> <p>Published December 1966 - Bulletin No. 68</p>
<p><b>1979 - SCR 42</b></p>	<p>Effects of Tax Relief Measures</p> <p>Published December 1980 - Bulletin No. 81-18</p>
<p><b>1987 - AB 397</b></p> <p>This bill appropriated \$500,000 for a study of the fiscal affairs (taxation) of state and local governments in Nevada.</p>	<p>Urban Institute-Price Waterhouse Study</p> <p>Published in hardcover as a "Fiscal Agenda for Nevada" in 1989, edited by Robert Ebel.</p>
<p><b>1989 - AB 801 (Sec. 31)</b></p> <p>This was a Legislative Interim Committee Study.</p>	<p>"A Comprehensive Study on Taxation in Nevada"</p> <p>Included in the study was the "feasibility and functionality of future revenue sources of all governmental units in the state."</p>
<p><b>1993 - SCR 43</b></p> <p>This was a Legislative Interim Committee Study.</p>	<p>"Revenue and Tax Structure in Nevada" (state and local government).</p> <p>Bulletin 95-16</p>
<p><b>2001 - ACR 1</b></p> <p>This resolution created the Governor's Task Force on Tax Policy in Nevada. The Task Force was a panel of citizens that in turn appointed a Technical Study Committee.</p>	<p>The report of the Governor's Task Force can be found on the website of the Legislative Counsel Bureau - <a href="http://www.leg.state.nv.us">www.leg.state.nv.us</a>.</p> <p>Go to the "Fiscal Division" (found under "Legislative Counsel Bureau") and scroll down to "ACR 1."</p>

***Plan to Join Us for NTA's . . .***

### 86<sup>TH</sup> ANNUAL GENERAL MEMBERSHIP MEETING AND LUNCHEON FEBRUARY 19 - PALACE STATION HOTEL & CASINO

Our featured luncheon speaker will be Dr. Arthur B. Laffer, noted economist and co-author of the recently released report, "*Rich States, Poor States*". His economic acumen and influence in triggering a world-wide tax-culling movement in the 1980's have earned him the distinction in many publications as "The Father of Supply-Side Economics."

Dr. Laffer is the founder and chairman of Laffer Associates, an economic research and consulting firm that provides global investment-research services to numerous institutions and corporations. Since its inception in 1979, the firm's research has focused on the interconnecting macroeconomic, political and demographic changes affecting global financial markets.

Dr. Laffer was a member of President Regan's Economic Policy Advisory Board for both of his two terms (1981-1989). He currently sits on the board of directors of several public companies.

Invitations will be mailed shortly.

## Legislative Enactments Part 2: General Interest Issues

### CORRECTION

In the August issue of *TAX TOPICS*, under the heading “Property Taxes” AB 209, on page 2, bullet point 4, incorrectly reported that the venue for appealing a State Board of Equalization to district court had been changed. The venue for filing still remains with the Carson City District Court.

(Note: Unless otherwise noted the effective dates for the bills reported is October 1, 2007.)

### AB 14 - Graffiti Damage

Increases the penalties for graffiti vandalism, from \$400 to \$1000 and includes community service. An offender 18 or older will face suspension of their driver’s license for at least six months

### AB 80 - Disclosure of Funds for Political Purposes

Requires that business entities must register and provide the Secretary of State certain information they solicit, receive or make contributions to affect the outcome of an election of a: candidate or group of candidates, advocate passage or defeat of a ballot question or questions or initiate or circulate a statewide initiative petition. Information is to be posted on the Secretary of State’s website.

### AB 114 - Personal Information

Requires solicitations that make firm offers of credit (including credit cards by mail) to verify the address if the offer is accepted and the address received is different than the mail address.

### AB 146 - Online Posting of Quality of Care at Medical Facilities

Requires state health officials to provide information on-line about the cost and quality of medical care at Nevada hospitals and surgical centers online by 2009

Effective Dates: July 1, 2007. Dates vary for the posting of information on-line.

### AB 158 -Health Care Directives

Provides that the Secretary of State’s office set up a registry “of advanced directives for health care: The site is to include instructions on withholding or withdrawing life sustaining treatment. A fee may be charged.

Effective Dates: June 13, 2007 and July 1, 2007

### AB 178 - Energy Efficient Mandates

Revises provisions relating to net metering and bans all sales of incandescent light bulbs effective 2012.

Effective Dates: Vary from June 14, 2007 to October 1, 2011

### AB 232 - Posting of Prescription Drug Prices

The Department of Health and Human Service will post on its website the prices for 100 of the most common name-brand and generic drugs.

### AB 279 - Gift Certificates (Cards)

Prohibits an issuer of a gift certificate from charging a service charges on the basis of inactivity if less than three years. Provides the unused value of a certificate issued or sold in this state, which has an expiration date and is not used by the expiration date is considered abandoned. Requires 60% of the unused portion of the card to be turned over to the State to be used for educational purposes. Provisions apply to gift certificates (cards) issued on or after 10/1/2007

### AB 404 - Setting of Insurance Rates

Requires insurance companies to provide additional information to consumers about how they use credit information to set rates.

### AB 440 - Mortgage Fraud

Establishes new rules for lenders who do not follow established loan procedures. The rules follow the new federal mortgage rules. Additionally, the bill makes mortgage lending fraud a felony.

### AB 483 - Homestead Exemption Increase

Increases the homestead exemption from \$350,000 to \$500,000 and exempts \$1,000 of personal property from forfeiture in a bankruptcy

Effective Date: July 1, 2007 & October 1, 2007

**AB 600 - Personal Information**

Unless otherwise required by law, a person does not have to disclose any personal information on any documents filed or submitted to a government agency. Requires any personal information to be kept confidential and allows a person to request removal of personal information on documents submitted before January 1, 2007.

Effective Dates: June 4, 2007 and January 1, 2008

**AB 604 - Initiatives, Referendums and Ballot Questions**

Requires the governing body of a political subdivision to create a description of the anticipated fiscal effect on the local government for ballot measures and upon the filing of a petition(s). Also, requires groups advocating for initiatives or referendums to file a statement of purpose and under certain circumstances file campaign disclosure statements with the Secretary of State.

Effective Date: July 1, 2007.

**SB 123 - Nevada Freedom of Information Act**

Sets a five day time frame for state and local government agencies to respond to a written request for public books and records of a governmental entity.

**SB 230 - Initiative Petition Requirements**

Requires a person signing a petition to also print their name. Revises the deadline for submission of the initiative from the third Tuesday in June to the third Tuesday in May. Also reduces to 15 days the time for: filing a challenge to the description; setting a date for hearing on the challenge; setting a date for legal sufficiency of the initiative.

**SB 238 EMPOWERMENT SCHOOLS**

Provides the conditions under which public schools may be created as empowerment schools by a school district. Empowerment schools place the power to change policy and take charge of their budget in the hands of the principal and teachers at the school.

Effective Date: July 1, 2007. Expires by limitation June 30, 2011

**SB 329 - Pet Protection**

Prohibits leaving a cat or dog in a car during conditions of extreme heat or cold.

**SB302 - Prohibits "Universal Default Clauses"**

Restricts in-state financial institutions that issue credit cards from increasing interest rates if a customer misses a payment on another account. Prohibits restricting a merchant from offering discounts to customers to induce the customer to pay by other means

**SB 409 - Health Insurance Mandate**

Expands health insurance coverage to include screening for prostate cancer and the vaccine for cervical cancer.

Effective Date: July 1, 2007

**SB 549 - Initiative Petition - Qualification**

Provides that for a petition to qualify for the ballot, the petition must be signed by 10% of all registered voters who voted in the preceding general election and that signatures must be obtained in all 17 counties based proportionally on each county's population.

Effective Date: July 1, 2007

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**End (of Year) Notes**

Over the last month you should have received three of the Associations booklets:

- *Understanding Nevada's Net Proceeds of Mineral Tax*
- *Understanding Nevada's Property Tax System*
- *Nevada Tax Facts*

If you are a member in good standing and did not receive any or all of these publications, please contact the NTA office closest to you (see below).

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Do we have your correct address? Phone number? Email address? Please remember to update your contact information whenever there is a change. And, if we do not have your current email address you are not receiving our electronic publication NTA e-brief which is emailed every three to four weeks.

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*WE WISH YOU A VERY  
PEACEFUL, HEALTHY  
and  
PROSPEROUS  
2008!*

**Don't forget to mark February 19, 2008 on your calendar for NTA's Annual General Membership Meeting and Luncheon at Palace Station Hotel and Casino in Las Vegas.**

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