

FINANCIAL IMPACT OF THE REFERENDUM ON SB483 PETITION

FINANCIAL IMPACT – YES

OVERVIEW

The Referendum on SB483 petition (Referendum) proposes to seek voter approval or disapproval of the provisions of Senate Bill 483 of the 2015 Legislative Session, which was approved by the Legislature on June 1, 2015, and signed by the Governor on June 9, 2015.

Pursuant to Article 19, Section 1 of the *Nevada Constitution*, a referendum proposing to approve or disapprove any statute or resolution, or part thereof, enacted by the Legislature is to be submitted to the voters at the next succeeding election at which the question may be voted on by the registered voters of the entire state. If the majority of the voters approve the statute or resolution, it shall stand as the law of the state and may not be amended, annulled, repealed, set aside, suspended, or in any way made inoperative without a direct vote of the people. If the majority of the voters reject the statute or resolution, it becomes void and has no effect, effective upon the canvass of the votes by the Nevada Supreme Court.

Pursuant to NRS 295.045, the question that would be placed on the ballot regarding approval or disapproval of Senate Bill 483 of the 2015 Legislative Session would require the voter to decide whether he or she approves the provisions of the bill. The Referendum would appear on the 2016 General Election ballot on November 8, 2016, if it qualifies for submission, and the result of the ballot question would become effective on November 22, 2016, pursuant to NRS 293.395, upon the canvass of the votes by the Nevada Supreme Court.

The following provides a summary of the provisions approved by the Legislature and the Governor in Senate Bill 483 of the 2015 Session, as well as an explanation of the effect of approval or disapproval of the provisions of the bill.

Local School Support Tax (Sales and Use Tax)

The Local School Support Tax portion of the statewide sales and use tax was permanently increased by 0.35 percent from 2.25 percent to 2.60 percent, effective July 1, 2015. The Local School Support Tax rate was increased by 0.35 percent during the 2013 Legislative Session, but was scheduled to sunset effective July 1, 2015, based on the 2013 legislation.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the 0.35 percent increase in the Local School Support Tax rate. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would repeal the 0.35 percent increase in the Local School Support Tax rate, reducing this portion from 2.60 percent to 2.25 percent, effective November 22, 2016.

Modified Business Tax – General Businesses

The Modified Business Tax on general businesses was permanently increased from 0.63 percent on all quarterly taxable wages paid to employees to 1.475 percent on quarterly taxable wages in excess of \$50,000, effective July 1, 2015. The Modified Business Tax rate on general businesses

was set at 1.17 percent on quarterly taxable wages in excess of \$85,000 during the 2013 Legislative Session, but was scheduled to sunset back to the 0.63 percent rate on all quarterly taxable wages, effective July 1, 2015, based on the 2013 legislation.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the current rate of 1.475 percent on quarterly taxable wages in excess of \$50,000. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would reduce the rate to 0.63 percent on all quarterly taxable wages, beginning with the payment due for the second quarter of Fiscal Year 2017 (October – December 2016), which would be paid on or before January 31, 2017.

Modified Business Tax – Mining

The Modified Business Tax rate on mining companies subject to the Net Proceeds of Minerals Tax was increased from 0.63 percent on all quarterly taxable wages, effective July 1, 2015, to 2 percent on all quarterly taxable wages.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the current rate of 2 percent on all quarterly taxable wages for these companies. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would reduce the rate to 0.63 percent on all quarterly taxable wages, beginning with the payment due for the second quarter of Fiscal Year 2017 (October – December 2016), which would be paid on or before January 31, 2017.

Nevada Commerce Tax

The Nevada Commerce Tax is a new tax that will be paid by certain businesses that have at least \$4 million in Nevada gross revenue during a taxable year, based on their industry-specific tax rate. The first payment of the tax is due August 15, 2016, for the taxable year ending on June 30, 2016.

Beginning in Fiscal Year 2017 (July 1, 2016 – June 30, 2017), a business that pays the Nevada Commerce Tax may take a credit of up to 50 percent of the Commerce Tax paid for the previous fiscal year against the business's Modified Business Tax liability in the current fiscal year.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would require businesses who have at least \$4 million in Nevada gross revenue during a taxable year to continue paying the Nevada Commerce Tax as required pursuant to current law and would allow businesses to continue receiving the credit of up to 50 percent of the Commerce Tax paid against the business's Modified Business Tax liability. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would repeal the provisions of the Commerce Tax, which eliminates this tax liability beginning with the taxable year ending on June 30, 2017. The credit of up to 50 percent of the Commerce Tax paid for the prior fiscal year against the current fiscal year Modified Business Tax liability would also be repealed effective with the Modified Business Tax payment due for the second quarter of Fiscal Year 2017 (October – December 2016), which would be paid on or before January 31, 2017.

Net Proceeds of Minerals Tax

Mining companies required to pay the Net Proceeds of Minerals Tax will be required to make an estimated payment of taxes due for calendar year 2016 on or before March 1, 2016. The mining company may not deduct expenses relating to health and industrial insurance in determining the net proceeds used to estimate the company's tax liability for calendar year 2016 when making that payment.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the current provisions relating to the Net Proceeds of Minerals Tax. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would allow mining companies to deduct health and industrial insurance in determining Net Proceeds of Minerals Tax liability for calendar year 2016.

Governmental Services Tax

Effective July 1, 2015, 100 percent of the proceeds from the state portion of the Governmental Services Tax are to be deposited in the State General Fund. Effective July 1, 2016, 50 percent of the proceeds from this portion of the tax are to be deposited in the State Highway Fund and 50 percent are to be deposited into the State General Fund. Effective July 1, 2017, 100 percent of the proceeds from the state portion of the tax are to be deposited in the State Highway Fund. Based on legislation enacted in 2013, the state portion of the Governmental Services Tax was to be deposited in the State General Fund until June 30, 2015, and was scheduled to be deposited in the State Highway Fund after that date.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the current provisions relating to the distribution of the state portion of the Governmental Services Tax. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would require that 100 percent of the proceeds of the state portion of the Governmental Services Tax be deposited in the State Highway Fund, beginning with the distribution of November 2016 tax revenue that would be made in December 2016.

Business License Fee

The annual business license fee paid to the Secretary of State's Office was permanently increased from \$100 to \$200 for all business types except corporations, effective July 1, 2015. The annual fee for corporations was increased from \$100 to \$500, effective July 1, 2015. The annual business license fee was set at \$200 on all business types during the 2013 Legislative Session, but was scheduled to sunset back to \$100 on all business types, effective July 1, 2015.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the annual business license fee of \$500 for corporations and \$200 for all other entities. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would reduce the annual business license fee to \$100 for all business entities, beginning with entities obtaining a new business license on or after November 22, 2016, and for entities renewing a business license with an expiration date on or after November 30, 2016.

Business Entity Filing Fees

The filing fees for initial and annual lists for business entities formed through the Secretary of State's Office was increased by \$25, effective July 1, 2015.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the increased fee for initial and annual lists for business entities formed through the Secretary of State's Office. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would eliminate the additional \$25 fee for all lists filed for new entities on or after November 22, 2016, and for existing entities filing a list due on or after November 30, 2016.

Cigarette Tax

The excise tax on cigarettes was increased, effective July 1, 2015, from 40 mills per cigarette (80 cents per pack of 20) to 90 mills per cigarette (\$1.80 per pack of 20).

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would retain the increase in the excise tax on cigarettes. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would reduce the tax from 90 mills per cigarette (\$1.80 per pack of 20) to 40 mills per cigarette (80 cents per pack of 20), effective November 22, 2016.

Court Fees

A \$100 fee is required to be collected by courts from persons who plead guilty, guilty but mentally ill, or *nolo contendere*, or who are found guilty of driving under the influence of intoxicating liquor or a controlled substance, which is deposited in a fund administered by the Office of the Court Administrator to pay for certain specialty court programs, effective July 1, 2015, until June 30, 2017. This \$100 fee was approved during the 2013 Legislative Session, but was scheduled to sunset effective July 1, 2015, based on the 2013 legislation.

A vote to approve the provisions of Senate Bill 483 of the 2015 Session would continue the imposition of this fee until June 30, 2017. A vote to disapprove the provisions of Senate Bill 483 of the 2015 Session would eliminate the fee, effective November 22, 2016.

FINANCIAL IMPACT OF THE INITIATIVE

If a majority of the voters approve the provisions of Senate Bill 483, those provisions would remain in effect, and the Referendum on SB483 petition would result in no financial impact upon state or local government.

If a majority of the voters disapprove of the provisions of Senate Bill 483, the Fiscal Analysis Division estimates that the disapproval of those provisions would negatively impact the State General Fund budget in Fiscal Year 2017 (July 1, 2016 – June 30, 2017) by approximately \$540.0 million from the loss of revenue to the State General Fund and the Distributive School Account. Additionally, the Fiscal Analysis Division estimates that the transfer of 50 percent of the state portion of the Governmental Services Tax from the State General Fund to the State Highway Fund will increase revenue in the State Highway Fund by approximately \$21.4 million in Fiscal Year 2017.

Based on the Fiscal Analysis Division's revenue estimates for Fiscal Year 2017, the revenue loss to the State General Fund and the State Distributive School Account that would result from the repeal of the provisions of Senate Bill 483 is estimated to be approximately \$667.3 million in subsequent fiscal years, based on an assumption of no growth in these revenue sources in Fiscal Year 2018 or future fiscal years.

In addition to the revenue loss relating to the State General Fund budget, the elimination of the deduction for health and industrial insurance expenses from the Net Proceeds of Minerals Tax in calendar year 2016 will result in a reduction of revenues from this tax dedicated to the State Consolidated Bond Interest and Redemption Fund and to local governments in Fiscal Year 2017 and to school districts in Fiscal Year 2018. The Fiscal Analysis Division has not prepared an estimate of the specific revenue loss that would be incurred by these entities.

Based on information received from the Department of Taxation and the Secretary of State's Office, the disapproval of the provisions of Senate Bill 483 of the 2015 Session would result in increased expenditures relating to administrative changes caused by the repeal of the various taxes and fees contained within the Referendum; however, these agencies did not estimate the costs necessary to administer these provisions. The Department of Taxation additionally indicated that additional staff that was approved by the Legislature during the 2015 Session for administration of the Commerce Tax could be eliminated if the provisions of Senate Bill 483 are disapproved; however, the Department did not estimate the number of positions that could be eliminated, nor did it estimate the cost savings that could result from the elimination of these positions.

The Governor's Finance Office has indicated that, because the effective date of the Referendum falls within the period in which the Office will be building the Governor's Executive Budget for the 2017-19 biennium, it would require additional personnel in order to make any necessary adjustments to the state government budget relating to the potential financial impact from the repeal of Senate Bill 483 of the 2015 Session. The Office has estimated that it would require three positions for a period of three months, which would result in the expenditure of approximately \$91,000.

The elimination of the \$100 fee collected by the courts would result in a reduction of revenue dedicated to certain specialty court programs, effective November 22, 2016. The Fiscal Analysis Division, however, cannot determine whether the elimination of this fee will adversely affect these specialty court programs for the remainder of Fiscal Year 2017 (November 22, 2016 – June 30, 2017) with any reasonable degree of certainty.

The Department of Motor Vehicles indicated that the changes in distribution of the state portion of the Governmental Services Tax that would result from disapproval of Senate Bill 483 of the 2015 Session would have no financial impact upon the agency.

Prepared by the Fiscal Analysis Division of the Legislative Counsel Bureau – October 6, 2015