

Business License Fee Facts

Proposed Modifications to Nevada's Business License Fee

As part of the 2015-2017 Executive Budget, Governor Brian Sandoval is recommending a modification to Nevada's Business License Fee (NRS 360.760-360.796). This brief summary is intended to provide a general overview of the proposed changes.

Why the Business License Fee?

Nevada's Business License Fee has among the broadest bases of any fee or tax currently imposed in the state of Nevada. In fact, over 300,000 businesses pay the current Business License Fee each year, from sole proprietors to large corporations. It also captures both domestic and foreign business filers. The Business License Fee is relatively easy for the State to administer; it is also among the easiest fees or taxes for businesses to comply with. Respecting that there is no such thing as a perfect fee or tax, as proposed, the Business License Fee is equitable, transparent, stable, simple, and will grow with Nevada's ever-changing economy.

What Changes are Proposed to the Business License Fee?

There are two primary changes that have been proposed to the Business License Fee. The current business license fee is \$200 per business per year, irrespective of the type of business or whether that business generates \$100,000 or \$100 million dollars in revenue. As proposed, larger businesses would be required to pay more. The proposed Business License Fee ranges from a minimum of \$400 for small businesses to more than \$4 million for businesses generating more than \$1 billion in revenue each year. Secondly, the proposed Business License Fee also imposes different rates for different industries. Among the many problems with a gross receipts tax or a flat tax is that those revenue-generating options treat every business exactly the same, disparately impacting small businesses or businesses with large sales volumes but very low margins. The proposed Business License Fee limits this issue by balancing the rates across roughly 30 industrial categories.

What Revenue is Included in the Business License Fee Calculation and What is Exempt?

Total revenue used to determine the Business License Fee range for each business is broadly defined to include most types of business receipts from the sale of goods or revenue realized in the performance of a service. The following are examples of receipts that are not included in the Business License Fee calculation: interest (other than from installment sales), dividends, capital gains, wages reported on a W-2, or gifts. Revenues that are subject to Nevada's Percentage Fees on Gaming Win (NRS 463.370) are exempt from the proposed Business License Fee; however, all other non-gaming revenue generated by a nonrestricted gaming licensee is subject to the fee. Notably, the industry-specific rates created by the Business License Fee have also been calibrated to reflect other revenue exclusions including, for example, uncompensated care provided by a hospital or flow-through revenues from a general contractor to a subcontractor.

How Do Taxpayers Determine Their Liability?

The Business License Fee will be paid quarterly to the Nevada Department of Taxation. Each business will determine its quarterly liability using a Business License Fee rate schedule that will be provided by the Department. This schedule will provide a series of revenue ranges with corresponding Business License Fee rates for each industry. A business's industry classification will be determined based on its primary business purpose. Quarterly Business License Fee payments will be due at the end of each calendar quarter and will be based on the revenue generated by that business in the prior calendar quarter. Businesses with multiple locations will be allowed to file a single, quarterly Business License Fee return; however, each physical location will continue to be required to maintain a Nevada State Business License that will be listed separately its quarterly Business License Fee calculation.

Is this a Gross Receipts Tax, a Margin Tax, or Something Else All Together?

The proposed Business License Fee differs significantly from the gross receipts tax debated by the Nevada State Legislature in 2003 as well as the two-percent margin tax that was rejected by voters in November of 2014. As proposed, the Business License Fee balances the burden among the State's capital and labor-intensive businesses, limits the potential for pyramiding, does not require the formation of an in-state IRS, reflects differences among industries and imposes a burden on taxpayers less than half of what other taxes would have generated. Perhaps most importantly, it also provides a stable source of revenue for needed K-12 education programs.

How the Business License Fee Works

What is it?

- It is an industry-specific graduated business license fee that uses the existing business license fee infrastructure.
- It's Broad based, Least complicated, and Fair.
- It's a hybrid tax model that borrows the best attributes from a true gross receipts tax, a margins tax and a business license fee structure.
- It generates approximately \$188 million in FY '16 and \$250 million in FY '17.

How does it work?

- Business sectors are broken down into thirty (30) categories including construction, wholesale trade, retail trade, professional services, accommodations, etc.
 - A business' primary purpose or the preponderance of their activity will drive the industry classification for business license purposes. It will be tied to each business' North American Industry Classification System Code. (NAICS Code).
- For each of the thirty business sector categories, an adjusted average rate is derived by taking into account the margins of each sector, including taking into account the differences of the average costs of goods sold and average cost of labor within each sector.
- This rate is then applied to different ranges of revenue, in 15% intervals, with a minimum fee of \$400/year and a maximum amount that depends on the classification and the amount of revenue
 - Note: Gross gaming revenue is not included in the calculation;
 - Note: Exports and services rendered/delivered outside of Nevada are not included in the calculation.
- A table is produced to determine BLF liability.
- Below is a partial table of actual BLF liability for revenues of certain sectors of the economy (to be paid quarterly):

Revenue Low	Revenue High	Construction	Wholesale	Retail Trade	Prof. Services
\$769,139	\$884,510	\$865	\$910	\$1,000	\$1,630
\$2,045,936	\$2,352,826	\$2,301	\$2,420	\$2,659	\$4,336
\$14,476,482	\$16,647,954	\$14,155	\$18,816	\$17,171	\$30,683
\$44,283,902	\$50,926,487	\$43,000	\$52,374	\$57,560	\$93,859
\$89,070,751	\$102,431,363	\$87,091	\$105,343	\$115,773	\$188,784

- For example, a construction business grossing \$2.1 million would pay an annual fee (paid quarterly) of \$2,301.
- A wholesale business grossing \$88 million would pay an annual fee of \$91,603.
- A retailer with revenue of \$50 million would pay an annual fee of \$57,560.
- A professional service company that grosses \$800,000 would pay an annual fee of \$1,630.

Effective Rates

<u>Industry Type</u>	<u>Industry Adjusted Fee Rate</u>
Agriculture	0.069%
Mining	0.056%
Utilities	0.148%
Construction	0.091%
Manufacturing	0.099%
Wholesale Trade	0.110%
Retail Trade	0.121%
Air Transportation	0.064%
Truck Transportation	0.221%
Rail Transportation	0.362%
Other Transportation	0.141%
Warehousing and Storage	0.139%
Publishing, Software, Data Processing	0.276%
Telecommunications	0.329%
Financial Activities	0.121%
Real Estate	0.272%
Professional Services	0.197%
Management of Companies	0.149%
Administrative and Support Services	0.168%
Waste Management Services	0.286%
Educational Services	0.307%
Health Services	0.208%
Arts, Entertainment and Recreation	0.261%

Accommodation	0.218%
Food Services (including restaurants)	0.211%
Other Services	0.155%
Unclassified	0.139%
Non-Employer Companies	\$400 flat fee
Foreign Filers	\$400 flat fee

Tax Liability Comparisons

	<u>BLF¹</u>	<u>GRT²</u>	<u>Margins Tax '11³</u>	<u>Margins Tax '14⁴</u>	<u>MBT⁵</u>
Construction	\$1,740	\$3,875	\$5,600	\$28,000	\$51,511
(\$2,000,000)					
Financial Activities	\$7,106	\$12,625	\$25,200	\$77,000	\$9,220
(\$5,500,000)					
Health Services	\$59,297	\$66,375	\$135,000	\$378,000	\$93,027
(\$27,000,000)					
Retail Trade	\$21,639	\$41,375	\$84,000	\$238,000	\$11,482
(\$17,000,000)					

¹ The current Business License Fee Proposed by Governor Sandoval.

² Tax assumes a 0.25% flat rate with \$450,000 deduction.

³ The tax was calculated using the proposed amendment 6801 to SB 491 of the 2011 Session.

⁴ The 2014 Margins Tax proposal allowed for certain deductions including the modified business tax; because of lack of data, the modified business tax was not deducted from the overall tax liability.

⁵ The modified business tax assumes an approximately doubling of the current rate, which would yield approximately the same as the business license fee. Of course, certain industries would pay more and others would pay less when comparing to the business license fee.