

QUESTION NO. 8

Amendment to the Sales and Use Tax Act of 1955
Assembly Bill No. 514 of the 72nd Session

CONDENSATION (ballot question)

Shall the Sales and Use Tax Act of 1955 be amended to revise the exemption from the tax for the sale or use of used vehicles; to provide exemptions from the tax for the sale or use of prescription ophthalmic and ocular devices and appliances, farm machinery and other agricultural equipment, works of fine art for public display, and professional racing vehicles and parts; and to revise the exemption from the tax on the sale or use of aircraft and parts of aircraft used by commercial air carriers?

Yes No

EXPLANATION

The proposed amendment to the Sales and Use Tax Act of 1955 would exempt from the tax: (1) the value of any used vehicle taken in trade on the purchase of another vehicle and remove the exemption from the tax for occasional sales of vehicles except where such sales are between certain family members; (2) the sale or use of ophthalmic or ocular devices or appliances prescribed by a physician or optometrist; (3) the sale or use of farm machinery and equipment employed for the agricultural use of real property; (4) the sale or use of works of fine art for public display; and (5) the sale or use of engines and chassis, including replacement parts and components for the engines and chassis, of professional racing vehicles that are owned, leased or operated by professional racing teams.

The proposed amendment would also revise and clarify the criteria used to determine which aircraft and parts of aircraft are exempt from the tax, including removing the requirement that an air carrier must be based in Nevada to be eligible for the exemption, and providing an exemption for certain machinery and equipment used on eligible aircraft and parts of aircraft.

The proposals set forth in the question may not be voted upon individually. The exemptions and other provisions listed in the above explanation apply to the portion of the Sales and Use Tax that is distributed at the local level (currently between 4.5 percent and 5.5 percent), but do not apply to the portion that is distributed at the State level (2 percent). (See **NOTE TO VOTERS** on page XX regarding the Streamlined Sales Tax Project and Nevada's sales tax.)

A “Yes” vote approves all of the proposals set forth in the question. The exemptions and other provisions will apply to both the local portion and the State portion of the Sales and Use Tax.

A “No” vote disapproves all of the proposals set forth in the question. The exemptions and other provisions will not apply to the local portion of the Sales and Use Tax and will be deleted from the State portion of the Sales and Use Tax.

ARGUMENTS FOR PASSAGE

If this proposal is approved, all of the exemptions and other provisions listed above will be added to the State portion of the Sales and Use Tax Act provisions. The Legislature has previously enacted laws to include the exemptions and other provisions listed above in the portion of the Sales and Use Tax that is distributed at the local level. In providing these exemptions and other provisions at the local level, the Legislature determined that those exemptions and provisions served an important social and economic purpose. Therefore, these provisions should be extended to apply to the portion of the Sales and Use Tax that is distributed at the State level.

In addition, only through the passage of this proposal will those who are currently receiving the exemptions from the local portion of the Sales and Use Tax continue to receive them.

ARGUMENTS AGAINST PASSAGE

If this proposal is not approved, the exemptions and other provisions will be deleted from the portion of the Sales and Use Tax that is distributed at the local level. The revenue available for distribution at the local level, including revenue distributed for the support of local schools, may be increased.

Although the Legislature has already granted these exemptions from the portion of the Sales and Use Tax that is distributed at the local level, legislation that enacted those provisions either did not require the submission of a question to the voters regarding including the identical provision in the state portion of the Sales and Use Tax, or the legislation required the submission of a question to the voters and the question was not approved.

In addition, passage of this proposal will reduce sales and tax revenues available to State government. Although State law already contains several exemptions from the Sales and Use Tax, if the reduction in revenues from exemptions becomes significant, the need to collect those revenues from other sources may result in an increased tax burden for those who are not eligible for an exemption.

FISCAL NOTE

Financial Impact – Yes.

Regardless of the outcome of this proposal, government revenues will be impacted in some manner. According to data provided by the Department of Taxation from Fiscal Year 2003, State government revenues will likely decrease by more than \$8.5 million if the proposal is approved. Conversely, if the proposal is not approved, revenues received by local governments will likely increase by more than \$22.1 million.

The table below indicates the increase or decrease in revenue that could result from each of the proposals described in the above explanation:

| Subject | State Revenue Loss if Question is Approved | Local Revenue Gain if Question is Not Approved |
|--|---|---|
| Motor Vehicle Trade-Ins and Occasional Sales | -\$6,636,000 | \$17,440,000 |
| Ophthalmic or Ocular Devices | -\$1,338,000 | \$3,485,000 |
| Farm Machinery and Equipment | -\$440,000 | \$1,013,000 |
| Works of Fine Art for Public Display | Indeterminate | Indeterminate |
| Aircraft and Aircraft Parts and Machinery | -\$69,000 | \$171,000 |
| Professional Racing Vehicles and Parts | -\$4,000 | \$12,000 |
| Total | -\$8,487,000 | \$22,121,000 |

The impact of the question on the average voter would depend on the extent to which the voter participates in transactions affected by the proposal. An explanation of the manner in which each proposal could impact voters is set forth below:

Motor Vehicle Trade-Ins and Occasional Sales

Currently, a person who applies the trade-in value of his vehicle to the purchase of a new vehicle is required to pay the portion of the Sales and Use Tax that is distributed at the State level (2 percent) on the entire sales price of the new car without a deduction for the trade-in allowance. However, that person is authorized to deduct from the sales price the trade-in allowance for the purposes of the portion of the Sales and Use Tax that is distributed at the local level (currently between 4.5 percent and 5.5 percent). If the question is approved, the purchaser of a new car will be able to deduct a trade-in allowance from the sales price of the new car for the purposes of the portion of the Sales and Use Tax that is distributed at the State level and the portion that is distributed at the local level. If the question is not approved, the purchaser of a new car will be required to pay the portion of the Sales and Use Tax that is distributed at the State level and the portion that is distributed at the local level on the entire sales price of the new car without a deduction for the trade-in allowance.

Currently, the purchaser of a motor vehicle that is sold by someone who is not in the business of selling such vehicles may be exempt from the requirement to pay the portion of the Sales and Use Tax that is distributed at the State level (2 percent); however, such a purchaser would be required to pay the portion of the Sales and Use Tax that is distributed at the local level (currently between 4.5 percent and 5.5 percent) unless the vehicle is a used vehicle and the sale is between certain family members. If the question is approved, occasional sales of vehicles would be exempt from the State and local portions of the Sales and Use Tax only if the vehicle is a used vehicle and the sale is between certain family members. If the question is not approved, occasional sales of vehicles would be exempt from both the State and local portions of the Sales and Use Tax regardless of whether the vehicle was used or whether the sale is between family members.

Aircraft and Aircraft Parts and Machinery

Currently, gross receipts from the sale or use of aircraft, aircraft engines or component parts of aircraft or aircraft engines and machinery, tools and other equipment and parts used to repair or remodel aircraft are exempt from the portion of the Sales and Use Tax that is distributed at the

local level (currently between 4.5 percent and 5.5 percent). In comparison, only the gross receipts from the sale or use of aircraft and major components of aircraft are exempt from the portion of the Sales and Use Tax that is distributed at the State level (2 percent). If the question is approved, the aircraft exemption would be expanded to ensure that the component parts of aircraft engines and machinery, tools and other equipment and parts used to repair or remodel aircraft are exempt from both the State and local portions of the Sales and Use Tax.

Other Proposals Set Forth in the Question

Currently, the gross receipts from the sale or the use of the following items are exempt from the portion of the Sales and Use Tax that is distributed at the local level (currently between 4.5 percent and 5.5 percent), but are not exempt from the portion of the Sales and Use Tax that is distributed at the State level (2 percent):

- Ophthalmic or ocular devices or appliances prescribed by a physician or optometrist;
- Farm machinery and equipment employed for the agricultural use of real property;
- Works of fine art for public display; and
- Engines and chassis of professional racing vehicles that are owned, leased or operated by professional racing teams.

If this question is approved, the exemption would be expanded to include the portion of the tax that is distributed at the State level and would decrease the cost of those items by 2 percent. If the question is not approved, the exemption would be eliminated from the portion of the tax that is distributed at the local level and the cost for these items would increase by between 4.5 percent and 5.5 percent.

NOTE TO VOTERS

Streamlined Sales Tax Project

Ballot Question No. 8 seeks to simplify the state and local tax base by making it uniform as required by the Streamlined Sales Tax Project. The Streamlined Sales Tax Project was created by state governments throughout the United States, with input from local governments and the private sector, to standardize and modernize sales and use tax collection. The goal of streamlining the tax base is to facilitate the collection of sales and use taxes for out-of-state sales and sales over the internet and to ensure that the tax revenues that support state and local governments are not reduced as a result of an increase in such sales.

Currently, certain exemptions from the portion of the Sales and Use Tax that is distributed to the State differ from the exemptions from the portion of the tax that is distributed at the local level. If Ballot Question No. 8 is approved, the exemptions from the portion of the Sales and Use Tax that is distributed to the State will be amended so that they are identical to the exemptions from the portion of the tax that is distributed at the local level. If the question is not approved, the exemptions from the portion of the Sales and Use Tax that is distributed at the local level will be amended so that they are identical to the portion of the tax that is distributed to the State.

Regardless of whether the question is approved or not approved, the exemptions for all portions of the Sales and Use Tax will become identical as required by the Streamlined Sales Tax Project.

Sales and Use Tax

Nevada’s statewide sales tax consists of three separate parts levied at different rates on the sale and use of tangible personal property in the State. The current combined rate that applies to each county within the State is 6.50 percent. In addition to these three parts, each county also may impose additional taxes subject to the approval of the voters or governing body in that county. These additional taxes have, in nine counties, increased the rate of the sales tax above the 6.50 percent rate imposed statewide.

The tax includes:

| | <u>Tax</u> | <u>Rate</u> |
|----|---|--------------|
| 1. | The State Sales and Use Tax..... | 2.00 percent |
| 2. | The Local School Support Tax (LSST) | 2.25 percent |
| 3. | The City-County Relief Tax (CCRT) | 2.25 percent |
| 4. | Optional local taxes—currently not more than..... | 1.00 percent |

The State Sales and Use Tax may be amended or repealed only with the approval of the voters. The Local School Support Tax (LSST) and the City-County Relief Tax (CCRT) may be amended or repealed by the Legislature without the approval of the voters.