

Ballot

Question 3.

~~NO~~



NO on 3

The Reality of the Margin Tax on Nevada

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hen we see something in our path that could potentially cause us harm - whether it's another car stopped in front of ours, another person barreling towards us as we walk down the street, or a ballot measure that stands to erase the strides our state has taken since the Great Recession - we must do one of two things: put on the brakes or brace for impact.

The Margin Tax Initiative, appearing as Question 3 on the general election ballot November 4, is one of the greatest threats to our state's fragile recovery and would, if passed, impact nearly every facet of life in Nevada: create an environment not conducive to economic growth, kill jobs and simultaneously inhibit future job creation, make Nevada one of the most uncompetitive states in which to open or bring in a business from another state, hike up consumer costs on everything from groceries to utilities, and create layers of complicated tax code that would mean significant additional administrative and compliance costs for both the government entities to implement it, and businesses forced to comply with it - regardless if they are profitable or not.

If passed in November, the Margin Tax would enact a two percent tax on all businesses in Nevada with revenues of more than \$1 million, **regardless if that business made a profit that year.** Just a penny over that \$1 million threshold would create an instant liability for the entire amount, leaving businesses with high overhead and slim profit margins (such as wholesalers, restaurants, general contractors, finance and insurance firms, and many more industries regarded as everyday services and necessities in our

state) at extreme risk for cutting back employment and operations, passing along steep cost increases to their customers, and potentially closing their doors for good. Curt Anderson, CEO of Fair, Anderson and Langerman CPAs and Business Advisors, has conducted extensive analysis with his clients on the reality of a Nevada with a margin tax, using real tax returns to illustrate that businesses that lose money or barely scrape by with a profit would be subject to the tax. "There's no magic to this," Anderson says. "A business that loses money can definitely owe this

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tax." Such a losing proposition would cost Nevada up to 9,000 private-sector jobs, according to estimates prepared by Applied Analysis, something that hits

hard as Nevada's employment numbers begin to turn around for the better.

The Margin Tax would also create an uncompetitive business environment for Nevada. **If passed, it would give Nevada the fourth or fifth highest corporate tax rate in the country, the equivalent of 14 to 15 percent.** Some businesses are holding off on decisions to relocate or expand to the state until after the general election on November 4. Such uncertainty as Question 3 looms on the ballot is cause for concern.

For those Nevadans who don't own a business, or run a business that doesn't meet that pivotal \$1 million threshold, the common argument is that the Margin Tax won't affect them. A recent study by RCG Economics found that more than 16,000 large and small Nevada businesses would be affected by the Margin Tax Initiative when affiliated businesses are considered. These business entities affected by the proposed margin tax employ nearly 608,000

workers – 63 percent of all private establishment-based employees in Nevada in 2013. The top five industries with the highest annual margin tax burden would be retail, finance and insurance, health care and social assistance, wholesale trade and utilities. These are industries that affect every single Nevadan, whether they own a business or not. Each of us living in the state would be negatively impacted by cost increases that would eventually be passed on to consumers. Explains Elizabeth Malm, an economist with the Center for State Tax Policy at the Tax Foundation, a nonpartisan think tank based in Washington, D.C., “It’s not going to just impact the firm that has to pay; it affects everyone down the chain.”

“If you’re passing a tax onto the person buying your products, and you have organizations piling it up on one another, it becomes a tax on a tax on a tax.”

The Margin Tax burden, passed on from suppliers to businesses to consumers throughout the state, would create a “tax on a tax on a tax,” trickling down from larger business suppliers to other businesses that need products, goods and services to conduct everyday business, to Nevadans who consume the goods and services produced. The effect, known as “tax pyramiding,” would potentially cause devastating cost increases that would further inhibit business growth, create an environment not conducive to job growth and create price hikes that would derail our fragile economic recovery. “Think about it this way: it’s not a tax on profit,” says Malm. “If you’re passing a tax onto the person buying your products, and you have

organizations piling it up on one another, it becomes a tax on a tax on a tax.”

One of the most significant instances of potential pyramiding as a result of the Margin Tax is the health care industry. Should the initiative pass, the health care industry is expected to experience a 203 percent state business tax increase in 2015, according to material commissioned by the Coalition to Defeat the Margin Tax Initiative from Applied Analysis. The preliminary findings state, “It is nearly impossible to determine the extent to which the burden created by the proposed margin tax would translate into

higher cost of health care.” In addition, “Assuming for point of reference that 50 percent of the price increase would be passed on to consumers, Nevadans’ health care costs would increase by more than \$40 million.” Everyone in Nevada paying for and receiving health care services would be impacted by this astronomical increase. And this is only one example of how the cost burden of the Margin Tax would eventually be passed along to consumers. Summing up the potential for pyramiding, the study from RCG Economics concludes with, “It would be difficult to predict how much of the \$800 million in new taxes imposed on Nevada businesses would be passed on to Nevada households via higher prices for goods and services, but it is a potentially large percentage.”

NEVADA’S TOP FIVE INDUSTRIES WITH HIGHEST ANNUAL MARGIN TAX BURDEN	
Industry	Annual Margin Tax Estimate
Retail Trade	\$109.3 million
Finance and Insurance	\$98.5 million
Health Care and Social Assistance	\$95.9 million
Wholesale Trade	\$90.6 million
Utilities	\$63.4 million

The Margin Tax is commonly compared to Texas' Franchise Tax. There are many notable differences in the existing tax in Texas and the proposed Margin Tax Initiative, including the tax rate itself. Nevada's proposed Margin Tax is two times higher than that imposed on business in Texas. In addition, some industries in Texas – including health care – mitigate potentially devastating costs associated with the margin tax by having certain exemptions and special circumstances within the tax code. No such “carve outs” occur in the tax code as it is written now. The Texas Franchise Tax has also undergone several iterations and revisions since becoming law and is still largely regarded as economically damaging.

Preparing for the tax as a business also creates major difficulties for both the state and businesses, which would have less than two months to prepare for the rollout of the Margin Tax on January 1, 2015, should it pass in November. “The difficulty of this tax is that it’s very difficult to structure your operations differently to avoid it,” explains Anderson. “You don’t have the ability to modify your way of doing business to avoid exposure. Most people can’t change it; all you can do is try and pass it on.” Says Malm, “It seems like it’s not going to impact people, but you have to think about how everyone has to file with the state for it. It creates a drain on resources: hiring people to help you figure it out, as well as the additional filings required.”

Anderson reiterates Malm’s point that every business in Nevada would have to navigate the tax at some level. “You might say that only the biggest firms have to pay, but figuring it out and filing is something everyone needs to do.” The administrative and compliance costs for the state are expected to substantially increase, as well as involved entities would have to scramble in the 57 days between the general election and January 1, to allocate staff and resources to interpret, enact and regulate the tax.

If passed, another troubling facet of the Margin Tax is that no one in the state – not the Legislature, state government or the people – would be able to change

a single provision of the law for at least three years. It would mean at least three years of killing jobs, economic development, new business, entrepreneurship, growth and competitiveness in the global market. “Business growth is funded only by a few sources of capital, retained profit being one,” says Anderson. “Growth is where new employment comes from. We need existing businesses to realize new growth opportunities and

fund that growth, and if they don’t have sufficient money to fund that growth, it starts to hamper a business’ ability to grow, and impedes employment and job growth.”

At the core of the debate is money for public education; the funds collected from the Margin Tax would be earmarked for

Nevada’s Distributive School Account, used to fund K-12 education, but there is no guarantee that the funds would be used towards education. The governor’s budget, as well as the State Legislature, could reduce general funds to the school account and divert the funds elsewhere in the budget.

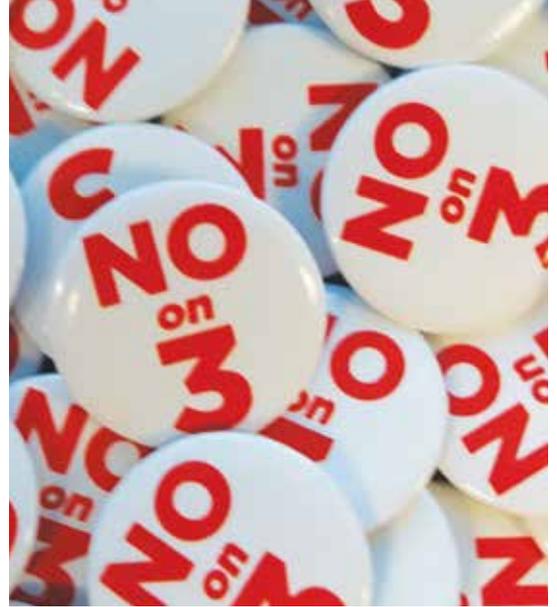
Come Election Day, Nevada voters will decide a large part of Nevada’s economic future. It’s time to put the brakes on the Margin Tax Initiative and vote No on 3.

More than 16,000 large and small Nevada businesses would be affected by the Margin Tax Initiative when affiliated businesses are considered. These business entities affected by the proposed margin tax employ nearly 608,000 workers - 63 percent of all private establishment-based employees in Nevada in 2013.

GET INVOLVED WITH THE COALITION TO DEFEAT THE MARGIN TAX INITIATIVE.

Sign up as a member of the coalition at **StoptheMarginTax.com**, or visit LVChamber.com/biz-pac to contribute towards the defeat of this harmful ballot initiative.

stop the margin tax



THE TOP TEN THINGS YOU NEED TO KNOW ABOUT QUESTION 3, THE MARGIN TAX INITIATIVE

- 1** The Margin Tax Initiative will be listed as **Question 3** on the November 4, 2014 General Election Ballot.
- 2** This flawed and costly measure would impose a 2% tax on Nevada businesses making gross **revenue** of more than \$1,000,000.
- 3** Each business can choose **only one** of three possible deductions to take.
 - Standard 30%
 - Cost of Goods Sold
 - Cost of Employee Compensation
- 4** If your business has \$1,000,000.01 in revenue, it will be subject to a 2% tax on the **entire amount**, not just the \$.01.
- 5** Businesses of all sizes would owe this tax even in years they **did not see a profit**.
- 6** The Margin Tax would turn Nevada from one of the most business friendly states to one of the **most unfriendly** states by creating the equivalent of a nearly 15% corporate tax, far surpassing our neighboring state of California who has a corporate income tax of 8.8%.
- 7** Economic impacts were not considered before Question 3 was put on the ballot. It is estimated that at the floor level, Question 3 will **kill nearly 9,000 jobs** in the state of Nevada.
- 8** There is **no guarantee** that the money will go to help Nevada's education system, classrooms or students. The Legislature could spend it on anything it chooses.
- 9** Thousands of individuals, businesses and organizations have voiced their **opposition** on Question 3, including the Las Vegas Metro Chamber of Commerce, the Nevada Resort Association, the Retail Association of Nevada, the Nevada Mining Association, the Nevada Restaurant Association, the Nevada Taxpayers Association, and the Nevada Society of CPAs.
- 10** **Vote No on Question 3** on the 2014 General Election ballot.