

# Gross Receipts Tax (Commerce Tax)

In 2003, Gov. Kenny Guinn proposed a new tax instrument to be levied against the gross revenue of Nevada businesses. Lawmakers rejected the scheme in favor of the current Modified Business Tax, a tax on private-sector payroll. Still, the idea has continued to retain zealous supporters.

In 2011, some lawmakers proposed a modified GRT, called a business “margin tax,” that would be assessed at a rate of 0.8% against gross profits prior to deductions for administrative and selling expenses. The proposal gained little support, but the next year, the state AFL-CIO and teacher union qualified a version of the proposal as a ballot initiative. That version more than doubled the rate of assessment to 2.0% and also changed some key legal definitions. The ballot initiative was defeated by a 4-to-1 margin.

Once re-elected in 2014, however, Gov. Sandoval included a new GRT in his 2015–2017 budget. Multiple versions were proposed by the administration and debated by lawmakers until a final version, called the “commerce tax,” could achieve the two-thirds supermajority required for passage.

## Key Points

**The commerce tax is a GRT like all its antecedents.** The tax base for the commerce tax is a firm’s gross income, the top line on its income statement. Tax liability is assessed as a percentage of this figure regardless of the firm’s costs or profitability.

**Gross receipts taxes are “distortive and destructive.”** The Tax Foundation calls GRTs “distortive and destructive,” because they “pyramid” up the supply chain, being assessed at every level of production. Thus, highly complex goods that require multiple stages of production are repeatedly subjected to the tax. This results in a higher effective tax rate on more complex goods, which distorts economic behavior. As the Tax Foundation says, “Gross receipts taxes do not belong in any program of tax reform.”<sup>1</sup>

**The commerce tax, like other GRTs, imposes high compliance costs.** Every Nevada firm is required to file a commerce tax return with the state taxation department even if owners won’t be subject to the tax. This requires that they delineate all revenues earned within and without the state’s boundaries. For many Nevada businesses, the new accounting costs for this delineation may be higher than the taxes paid.

**The commerce tax is more pernicious than previous incarnations.** Apologists for the commerce tax argue that the currently applicable tax rates are lower than those under previous GRT proposals and that the tax contains an exemption for the first \$4 million in Nevada gross receipts. However, the bill’s authors divided their private sector targets into 26 different categories, all with unique rates, so that future legislatures can pit one industry against another to extract higher taxes.

**The biggest proponents of the commerce tax are exempt from it.** Several large gaming companies have been the behind-the-scenes movers for imposing a GRT upon other Nevada businesses. They were able to write language into the legislation that exempts their gaming revenue and their Real Estate Investment Trusts, which these companies have used to structure their multi-billion dollar real-estate holdings.

## Recommendations

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<sup>1</sup> Joseph Henchman, “Nevada May Consider New Business Taxes,” Tax Foundation Fiscal Fact No. 270, 2011.

<sup>2</sup> Ibid.

**Repeal the commerce tax and abandon GRTs.** The Tax Foundation declares, “There is no sensible case for gross receipts taxation, or modified gross receipts taxes such as a Texas-style margin tax.”<sup>2</sup>

Indeed, there is broad consensus among tax economists that gross receipts taxes are more destructive than alternative tax instruments yielding similar amounts of revenue. As such, Nevada lawmakers should immediately repeal the destructive and unpopular commerce tax and never again consider a GRT in Nevada.

## Washington’s 2009–2011 Purchase Plan for Student Achievement (Sample Items)

Industry	Number of Business Entities	Taxable Nevada Gross Receipts	Commerce Tax Rate	Estimated Commerce Tax	Average Commerce Tax/Entity
Agriculture	274	\$102,134,105	0.063%	\$64,344	\$3,575
Mining & Extractive Industries	260	114,947,920	0.051%	58,623	2,931
Utilities	33	9,740,457,143	0.136%	13,247,022	441,567
Construction	5,710	9,565,342,791	0.083%	7,939,235	8,841
Manufacturing (NAICS 31)	277	458,857,817	0.091%	417,561	10,439
Manufacturing (NAICS 32)	518	775,058,625	0.091%	705,303	8,816
Manufacturing (NAICS 33)	988	880,089,853	0.091%	800,882	19,534
Wholesale Trade	4,647	18,404,647,387	0.101%	18,588,694	17,857
Retail Trade (NAICS 44)	3,189	29,658,883,166	0.111%	32,921,360	43,778
Retail Trade (NAICS 45)	1,592	7,077,836,386	0.111%	7,856,398	44,386
Transportation & Warehousing (NAICS 48)	1,241	1,190,638,914	0.058% – 0.331%	1,394,555	14,086
Transportation & Warehousing (NAICS 49)	483	985,769,826	0.128%	1,265,417	38,346
Information	1,083	2,305,083,749	0.136% – 0.253%	4,204,826	40,046
Finance & Insurance	3,175	5,398,751,401	0.111%	5,992,614	25,719
Real Estate Leasing	3,162	1,601,207,485	0.250%	4,003,019	27,607
Professional Services	9,497	3,204,491,479	0.181%	5,800,130	17,366
Management of Companies	1,502	12,827,980	0.137%	17,574	2,511
Administrative & Waste Management	4,923	3,640,794,762	0.154% – 0.261%	5,693,352	22,773
Educational Services	788	189,597,280	0.281%	532,768	19,732
Health Care & Social Assistance	5,667	10,672,432,316	0.190%	20,277,621	41,896
Arts, Entertainment & Recreation	1,291	1,180,676,395	0.240%	2,833,623	20,240
Accommodation & Food Services	3,947	3,223,386,639	0.194% – 0.200%	6,330,042	22,607
Other Services	3,331	677,146,417	0.142%	961,548	8,903
Unclassified	764	64,688,898	0.128%	82,802	5,914
<b>Total</b>	<b>58,342</b>	<b>\$111,125,748,733</b>	<b>N/A</b>	<b>\$141,989,314</b>	<b>\$26,510</b>

**Source:** Eugenia Larmore and Brian Bonnenfant, “Analysis of Nevada Commerce Tax Impacts by Industry,” Ekay Economic Consultants Report Prepared for University of Nevada, Reno College of Business, July 2015.