

QUESTION NO. 8

Amendment to the Sales and Use Tax Act of 1955
Assembly Bill 554 of the 73rd Session

CONDENSATION (Ballot Question)

Shall the Sales and Use Tax Act of 1955 be amended to exempt from the tax the value of any used vehicle taken in trade on the purchase of another vehicle and the value of farm machinery and equipment?

Yes.....

No.....

EXPLANATION (Ballot Question)

The proposed amendment to the Sales and Use Tax Act of 1955 would exempt from both the state and local portions of the tax: (1) the value of any used vehicle taken in trade on the purchase of another vehicle and (2) the value of farm machinery and equipment. The proposals set forth in the question may not be voted upon individually.

Currently, the exemption for the value of any used vehicle taken in trade on the purchase of another vehicle listed in the above explanation applies only to the portion of the Sales and Use Tax distributed at the local level (currently between 4.5 and 5.75 percent), but does not apply to the portion distributed at the state level (2 percent). (See **NOTE TO VOTERS** on page 3 regarding Nevada's Sales and Use Tax.)

There is no current exemption for farm machinery and equipment from the local portion or the state portion of the Sales and Use Tax. If this proposal to provide the exemption from the state portion is approved, the Legislature has amended the Local School Support Tax Law and the City-County Relief Tax Law so that this exemption will also apply to the sales and use tax distributed at the local level.

A "Yes" vote approves both proposals set forth in the question. The exemptions will apply to both the local portion and the state portion of the Sales and Use Tax.

A "No" vote disapproves both proposals set forth in the question. The exemptions will not apply to either the local portion or the state portion of the Sales and Use Tax.

ARGUMENTS FOR PASSAGE

Many states, including Nevada and all of its surrounding states, provide an allowance for the trade-in value of a vehicle when determining the net sales price subject to their Sales and Use Tax. The exemption for the value of a used vehicle taken in trade on the purchase of another vehicle from the local portion of the Sales and Use Tax has provided millions of dollars of tax savings for the consumers in Nevada by reducing the sales tax on the purchase of a vehicle involving a trade-in. If this proposal is not approved, the exemption from the Sales and Use Tax

will be entirely eliminated. Passage of this proposal will provide a complete exemption of the trade-in value of a vehicle from the Sales and Use Tax. For example, if this proposal is not approved, a consumer trading-in a vehicle with a value of \$15,000 will pay additional sales taxes of approximately \$1,000, depending upon the county where the trade-in occurs.

Before January 1, 2006, the sales and use tax rate on farm machinery and equipment was only 2 percent. Now the tax rate is between 6.5 and 7.75 percent. As a result, many farmers in Nevada purchase farm machinery and equipment in certain neighboring states because those states do not impose a sales and use tax on farm machinery and equipment. The Sales and Use Tax places Nevada's farm equipment dealers at a disadvantage when competing with out-of-state dealers. The purchase of farm machinery and equipment from surrounding states may contribute to a loss of economic activity in Nevada's rural agricultural communities through reduced sales, resulting in lost jobs and wages. The exemption of farm machinery and equipment from the Sales and Use Tax will allow Nevada's farm equipment dealers to compete fairly with equipment dealers in surrounding states. The exemptions will help keep farm machinery and equipment purchases in the state and maintain the economic viability of Nevada's rural agricultural communities.

ARGUMENTS AGAINST PASSAGE

The policy of providing exemptions for specific goods or transactions only provides the benefit of reduced taxes to individuals participating in those activities. The exemption for the value of a used vehicle taken in trade on the purchase of another vehicle only provides a benefit to those individuals who trade in a used vehicle when purchasing another vehicle. Individuals who do not have a vehicle to trade in will receive no benefit from the exemption. The exemption for farm machinery and equipment only provides a benefit to those individuals who sell or purchase such machinery and equipment.

Providing exemptions from the Sales and Use Tax reduces the amount of revenue collected per sale by state and local government, including school districts. If the reduction in revenues from these exemptions becomes significant to state government or local governments, the need to replace these lost revenues from other sources may result in increased taxes.

If this proposal is not approved, the current exemption for the value of a used vehicle taken in trade on the purchase of another vehicle will be eliminated from the local portion of the Sales and Use Tax. Eliminating this exemption increases the amount of revenue collected per sale by local governments, including school districts.

FISCAL NOTE

FINANCIAL IMPACT - YES

IMPACT ON REVENUE COLLECTED BY STATE AND LOCAL GOVERNMENTS

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 2005, if the proposal is approved, state government revenues will likely be reduced in a single fiscal year

by approximately \$19.6 million and revenues distributed to local governments, including school districts, will likely be reduced by \$1.6 million. Conversely, if the proposal is not approved, revenues distributed to local governments, including school districts, will likely be increased by approximately \$51.0 million in a single fiscal year.

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

| Subject | State Revenue <u>Loss</u> if Question is <u>Approved</u> | Local Revenue <u>Loss</u> if Question is <u>Approved</u> | Local Revenue <u>Gain</u> if Question is <u>Not</u> <u>Approved</u> |
|---------------------------------|--|--|---|
| Used Vehicle Trade-In Allowance | \$18.8 Million | | \$51.0 Million |
| Farm Machinery and Equipment | \$0.8 Million | \$1.6 Million | |
| TOTAL FISCAL YEAR IMPACT | \$19.6 Million | \$1.6 Million | \$51.0 Million |

In addition, the Department of Motor Vehicles retains a commission of 2 percent on the Sales and Use Tax collected by the Department when a vehicle is registered in Nevada and the required state and local Sales and Use Tax has not been paid prior to registration. According to data provided by the Department of Motor Vehicles from Fiscal Year 2005, if the proposal is approved, the amount of 2 percent commissions on Sales and Use Tax paid directly to the Department from out-of-state dealer sales with a vehicle trade-in allowance will likely be reduced by approximately \$22,000 for a single fiscal year. If the measure is not approved, the amount of 2 percent commissions retained by the Department of Motor Vehicles will increase by approximately \$41,000 for a single fiscal year.

IMPACT ON AN INDIVIDUAL TAXPAYER

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:

USED VEHICLE TAKEN IN TRADE ON THE PURCHASE OF ANOTHER VEHICLE

Currently, a person who applies the trade-in value of his vehicle to the purchase of a new or used vehicle is required to pay the portion of the Sales and Use Tax distributed at the state level (2 percent) on the entire sales price of the new or used car without a deduction for the trade-in allowance. However, this 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 distributed at the local level (currently between 4.5 to 5.75 percent depending on the county).

If the question is approved, the purchaser of a new or used car will be able to deduct the trade-in allowance from the sales price of the new or used car for the purposes of both the portion of the

Sales and Use Tax distributed at the state level and the portion distributed at the local level. In effect, the amount of tax paid will be reduced by 2 percent of the trade-in value of the used vehicle if the question is approved.

If the question is not approved, the purchaser of a new or used car will be required to pay the portion of the Sales and Use Tax distributed at the state level and the portion distributed at the local level on the entire sales price of the new or used car without any deduction for the trade-in allowance. In effect, the amount of tax paid will increase by 4.5 to 5.75 percent of the trade-in value of the used vehicle if the question is not approved.

FARM MACHINERY AND EQUIPMENT

Currently, the gross receipts from the sale or the use of farm machinery and equipment are subject to both the state portion (2 percent) and the local portion (4.5 to 5.75 percent) of the Sales and Use Tax.

If the question is approved, the gross receipts from the sale or the use of farm machinery and equipment would be exempt from both the state portion and the local portion of the Sales and Use Tax. In effect, the tax would be eliminated and the amount of tax paid for farm machinery and equipment will be reduced by 6.5 to 7.75 percent.