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## INCOME TAX TALK

When it comes to creating a services tax, the Legislature could cast a wide net, taxing nearly every service at a lower rate and reducing the sales tax on goods in the process -- a Republican idea.

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It's a wonder in Nevada state politics: At the start of a legislative session, Republicans and Democrats are open to pursuing tax reform that would include a new tax on services.

But the specifics of how to approach that new tax could quickly shatter any growing sense that the Legislature is a happy, bipartisan family.

When it comes to creating a services tax, the Legislature could cast a wide net, taxing nearly every service at a lower rate and reducing the sales tax on goods in the process — a Republican idea.

Or, it could approach it in a more narrow fashion, taxing mainly services used by businesses — think services for lawyers, accountants or custodians. Such an approach, deemed less regressive by some, could be more amenable to Democrats.

And should this tax produce more revenue for education and state services now or be implemented in a “revenue-neutral” way that would keep state spending flat?

How legislators structure a proposal could be crucial for middle-class Nevadans, who could either face no tax increase or a significant tax increase.

It's early still in the 120-day session, but when it comes to talk of tax reform, a services tax seems to have been getting the most traction with both parties.

But some conservative groups are cautioning that it could be a burden on businesses;

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Nevada already has one of the most regressive tax systems in the United States, according to numerous national tax studies.

Those in middle- and lower-income tax brackets already pay proportionately more in taxes than wealthier people in states — such as Nevada — that don't have an income tax.

“We think we need to give more support to small businesses,” said Laura Martin with the Progressive Leadership Alliance of Nevada, an umbrella organization of left-leaning groups.

The idea for a services tax is supported by many conservative think tanks and actually is being pushed by Republican governors who would like to move away from an income tax and toward a consumption tax. Nevada does not have an income tax.

But that doesn't mean a services tax proposal wouldn't earn criticism from the right.

The conservative-leaning Tax Foundation points out that gearing the tax just toward services used by big businesses could ramp the tax bill for middle- and lower-income consumers.

“Say you're producing a good and there are a lot of intermediate steps in between and each of those steps is taxed, so you'll have all those taxes piling up at the end,” said Liz Malm with the Tax Foundation, a Washington, D.C.-based policy research nonprofit group.

Small businesses might also take a hit under such a tax.

Big companies can assign work to in-house lawyers, accountants, technicians and other service providers. They would pay these people a wage or salary but would otherwise skirt a tax on services.

An independent doctor's office, on the other hand, would pay service taxes for an

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has earned guarded praise from key legislators from both parties. It's also a proposal that got a look between the 2011 legislative session and this one, meaning some of the homework already has been done.

"We've analyzed it in preparation for this session," said Jeremy Aguero with consulting firm Applied Analysis.

Democrats who want more money for education and health care programs must look at what tax changes can win approval from both the Legislature and Republican Gov. Brian Sandoval, whose power in this matter is spelled V-E-T-O.

"I am willing to listen to any type of proposal, but no one is really sure what 'tax reform' means and nobody is really sure what 'revenue neutral' means," Sandoval told the Sun last week. "So until there's a little bit more specifics with regard to that, I think it's premature to comment on that."

Such revenue-neutral tax reform has been popular for decades. Many studies in Nevada have said that broadening the tax base (and not necessarily raising revenue) is a good thing for the state.

Many other states are also waking up to the economic reality of the 21st century. Modern consumers spend more of their money on largely untaxed services than on taxable goods.

In other words, many states collect sales tax on a pair of shoes; few collect a tax on legal services.

Economics aside, political appetite also plays an important role. The state teachers union in Nevada got enough signatures to force the Legislature to consider a "margins tax" — a net business revenue tax — or let it go to the people on the 2014 ballot.

So far, the Legislature has not acted on it, and the governor has said he would veto it.

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Rather than taxing all services and then providing exemptions, the Legislature could identify specific luxury services it should tax, Smith said.

Much like the state's live entertainment tax, the services could be levied on a specific group of services, Aguero said.

Taxing accounting, legal, janitorial, security, and other services that businesses use would spare the average family a tax hit.

When businesses pay the transaction taxes, the state could then lower the overall sales tax rate.

"It could reduce the level of regressivity in Nevada's tax system," Aguero said.

Of course, lowering the rate would be more difficult if fewer services were taxed.

And the decision on which services to include could also spark unprecedented lobbying carnage at the Legislature as legions of lobbyists try to carve out exemptions from the tax.

The Legislature would take aim at the exact group of people — lawyers, accountants, business owners — most equipped to fight the tax.

Carole Vilaro, president of the Nevada Taxpayers Association, prefers the services tax to a margins tax, but she said any tax reform is difficult.

"Don't tax you, don't tax me, tax that fellow behind the tree," she said, citing a limerick about taxes.

The Legislature has less than 100 days in its session to figure out who's behind the tree.

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