

Nev. lawmakers bet on tax breaks to generate revenue

By Andrew Doughman, Las Vegas Sun

Actor Nicolas Cage told legislators that investors and movie producers could flock to Nevada.

But he would only get to produce his “four scripts that could easily be shot in Nevada” if the Legislature passed a \$20 million tax credit for the film industry, Cage told lawmakers several months ago. Legislators passed the bill, but only time will tell whether the \$20 million tax discounts will ultimately bring more jobs and investment to the state.

The gamble for the state is this: Pay for schools, public safety, roads and other services now, or give some money away in hopes that the businesses receiving tax breaks will bring even more money to the state in future years.

Legislators made this bet again and again and again during the legislative session that ended this month in what’s become a give-’em-a-break ritual.

“We always have bills that deal with abatements,” said Carole Vilardo, director of the Nevada Taxpayers Association.

Legislators authorized hundreds of millions of dollars in potential tax breaks, most of which will benefit large businesses and organizations. (That’s in addition to hundreds of millions of dollars in breaks for things like energy-efficient buildings and renewable energy development.)

Whether it’s movie tax credits, insurance tax breaks for companies or investors, property tax exemptions or energy bill discounts, here’s a look at whom the Legislature helped this year.

With a banner cry of “help us help Nic Cage,” legislators passed the film tax credit bill, which the bill’s sponsor said will help attract all sorts of new business to Nevada.

Senate Bill 165 also had the enthusiastic support of Mayor Carolyn Goodman, who told a legislative committee that “my wholehearted support for his bill is beyond wholehearted.”

Basically, the bill says people filming movies, TV shows and other programs spending 60 percent of their production costs in Nevada can then claim tax credits for 15 percent of the expenses.

Sen. Aaron Ford, D-Las Vegas, said the bill will help stimulate a small but growing film industry in Nevada.

Critics of the bill attacked it from both the political right and left.

Former state Sen. Sheila Leslie, D-Reno, said on Twitter that she’d rather see the state spend money on health and education programs than give tax breaks to film companies.

Conservative critics said the government shouldn’t pick which industries deserve a tax break.

“That’s money that’s not available for a tax cut for everyone,” said Victor Joecks of the Nevada Policy Research Institute, a think tank critical of the film tax bill. “That’s money that’s not available for a government program.”

Will the tax credit bring in more money for government programs? Nevadans should know in five years, once the program expires and reports show how much went out and how much came back in.

Arguably the best deal for businesses is a tax credit that allows investors to get a tax break that eventually equals 58 percent of their investment.

In Senate Bill 357, the Legislature authorized up to \$200 million in statewide “new market tax credits” that are generally awarded when investors put money into businesses in poor neighborhoods with high unemployment rates.

After an initial two years during which no exemption is awarded, investors can deduct from the state insurance premium tax 12 percent for the next three years and 11 percent for the next two years.

Unlike the film tax credits, nobody can trade or sell these on the open market.

Still, it’s not just the financial firms that get a tax break for insurance premium taxes. Under the law, investment firms like the ones that lobbied the Nevada Legislature will get to transfer the tax credits to their partners, members or shareholders in Nevada.

If those members are large insurance companies in Nevada, they could be able to claim a significant deduction on the state’s insurance premium tax.

The law, sponsored by Sen. Michael Roberson, R-Henderson, is modeled on a similar federal program designed to provide investors with an incentive to enter low-income markets and allow businesses in low-income communities to access private capital.

The current recipients of the federal tax credit in Nevada are banks and other investors.

It’s unclear which groups will participate in the state-level program.

Out-of-state manufacturing companies would benefit from another state-sponsored abatement.

The Nevada Manufacturers Association has long lamented that Nevada has some of the highest energy rates in the Western

United States. So commercial and industrial businesses that might otherwise find Nevada's low-tax environment attractive don't come here partially because of high energy costs.

Assembly Speaker Marilyn Kirkpatrick, D-Las Vegas, sponsored Assembly Bill 239 in hopes of changing that.

New companies coming into Nevada can get up to a 30 percent discount on their energy rates during the first year they're in the state, up to a 20 percent discount during the second and third years, and up to a 10 percent discount during the fourth year.

But the rate reduction is limited. These new companies could get a discount for up to 50 megawatts of energy use.

A report to the Legislature in 2015 should show how many companies participated in the program and how much of a discount they got.

Businesses that want to give more than \$500,000 to Nevada's universities and colleges can also get property tax breaks under certain conditions.

A new law created by Assembly Bill 138 allows businesses to invest in support of college certification, research or training in exchange for a property tax break up to 50 percent of the value of the investment for five years.

So, if the business meets all the requirements and invests \$1 million, it could deduct \$500,000 or 50 percent of its property tax bill, whichever is less.

It's not just donations that qualify businesses for the tax break.

Businesses can give universities money, personal property or other assets to get the tax break, too.

In addition to the benefit to the universities, the businesses

have to employ students as well.

Although legislators wrote in Assembly Bill 138 that tax exemptions “will achieve a bona fide social or economic purpose and that the benefits of the exemption are expected to exceed any adverse effect of the exemption,” nobody really knows what will happen.

Critics of these incentives and tax breaks say the money could go to health care or schools, both top priorities for Democrats at the Legislature this year. Critics on the right say that eliminating these specific incentives could allow the state government to lower tax rates for everybody.

Are the discounts worth it?

“You can make the argument that we’d collect more if you hadn’t given it,” said Steve Hill, the director of the Governor’s Office of Economic Development, which oversees many incentive and tax break programs. “Then you can make the argument that they wouldn’t have come without the abatement.”

This year, the Legislature also passed some bills to look at whether these tax breaks are actually working and whether they need a fix.

“This ought to be a virtuous circle where the Legislature sets policy, we implement that, we measure the results,” Hill said.

Because of those bills, Nevadans may know whether these gambits pay off. The governor signed into law Assembly bills 333 and 466, both of which will measure the costs and benefits of tax breaks, deductions, credits, abatements and so on.

“You’ll know if you’re building a farm or if you’re giving away a farm,” Vilaro said.