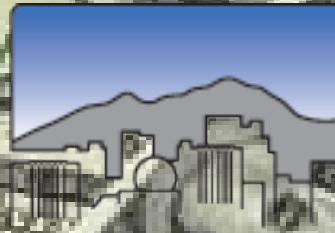


Nevada's Margin Tax Initiative

Presented to:



Reno/Sparks Association of
REALTORS
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RCG
ECONOMICS

Education Initiative

Proposed Margin Tax Key Concerns

- This is NOT just like the Texas Franchise Tax
 - Rate is 2-4 times the Texas rate
- Nevada Law Taxes Individuals
- Lacks Texas Law Clarifications for:
 - Construction Contractors
 - Real Estate Brokers
 - Controlled Groups
- No \$1,000,000 Exemption
- You CAN lose real money and still owe the tax
- Cannot be changed for 3 years
- Cost of Compliance
 - State Costs of Administration
 - Taxpayer Costs of Compliance



Business Entities Required to File

- Corporation
- Partnership
- Proprietorship
- Limited Liability Company
- Business Association
- Joint Ventures
- Limited Liability Partnership
- Business Trust
- Professional Association
- Joint Stock Company
- Holding Company
- Combined Group
- Natural Persons filing
 - Schedule C
 - Schedule E
 - Schedule F
- Passive Entity (no tax due)
- Any other person engaging in business



Business Entities Not Required to File

- Not Required to File
 - Government Entity
 - 501(c) Entities
 - Credit Union
- Passive Entity Required to File, No Tax Due
 - General Partnership
 - Limited Partnership
 - Limited Liability Partnership
 - Limited Liability Limited Partnership
 - Trust, other than a Business Trust
 - 90% of Federal Gross Income consists of:
 - Dividends or interest and
 - Royalties, bonuses or delay rental income from mineral properties and income from other non-operating mineral interests
 - Does NOT include rents



Exemption Threshold

- A business entity is exempt if the total revenue of the entity is less than or equal to \$1M in a tax year.
- An Affiliated Group (which is required to file a combined group return) constitutes a business entity for purposes of the tax.
 - \$1M threshold is computed based upon Revenue of the Affiliated Group, not per each separate entity

Affiliated Group Combined Group Return

- Two or more business entities
- Each controlled by one or more common owners or members
- Engaged in a Unitary Business
 - Characterized by unity of:
 - Ownership
 - Functional Integration
 - Centralization of Management and
 - Economy of Scale
 - Texas Franchise Tax defines Unity of Ownership as a more than 50% controlling interest. The Nevada Margin Tax has no definition.



Calculation of Taxable Margin

- Taxable Margin is the lesser of:
 - 70% of total revenue
 - Total revenue less cost of goods sold
 - Total revenue less compensation
- Tax Calculation
 - 2% of taxable margin
 - Reduced by modified business tax paid for the tax year



What is Total Revenue?

Add:

- Sales
- Dividends
- Interest
- Rents
- Royalties
- Capital Gains
- Ordinary Gains
- Other income

Subtract:

- Bad debts
- Foreign royalties and dividends
- K-1 income (not including passive entity income below)
- Single member LLC income
- Passive entity income
- Pass-through revenue
- Principal payments (lending institution)
- Interest and dividends from funds or securities issued by Federal Government, State of Nevada, Nevada political subdivision
- Gaming taxed revenue



What is Cost of Goods Sold?

- Involves acquiring or producing real or tangible personal property sold in the ordinary course of business
- Production includes construction, installation, manufacture, development, extraction, improvement, creation, raising or growth
- NOT the same as federal income tax definition
- Does NOT include (partial list)
 - Selling costs
 - Distribution costs
 - Advertising
 - Bidding costs
 - Interest
 - Costs of litigation



What is Compensation?

- Wages, salaries, bonuses, etc. (W-2)
 - Includes net distributive income to a natural person from:
 - Partnership
 - S Corporation
 - Single Member Limited Liability Company
 - Benefits
 - Retirement plans
 - Healthcare
 - Contribution of Health Savings Accounts
 - Workers Compensation Benefits
- Wages, etc., including net distributive income, is limited to \$300,000 per person per taxable year



Other Filing Issues

- Combined Group Return
 - Information has to be on the basis of same 12 month period
 - Only 1 method for taxable margin calculation
 - Notwithstanding different industries could be in combined group return

- Apportionment Process
 - Apportions taxable margin to Nevada based on a ratio of Nevada total revenue to group total revenue.



Real Estate Broker 2012 Tax Return

Recap

Revenue as defined		\$	15,186,000
Operating Expenses		\$	<u>(13,956,000)</u>
	Taxable Income	\$	<u><u>1,230,000</u></u>

Alternative Margin Calculations

A.	70% of Revenues		\$	<u><u>10,630,200</u></u>
B.	Cost of Goods Sold			
	Revenue	\$	15,186,000	
	Cost of Goods Sold	\$	<u>-</u>	\$ <u><u>15,186,000</u></u>
C.	Compensation			
	Revenues	\$	15,186,000	
	Compensation	\$	<u>(5,526,000)</u>	\$ <u><u>9,660,000</u></u>



Real Estate Broker 2012 Tax Return, continued

Smallest Taxable Margin

	\$	9,660,000
Tax Rate		<u>2%</u>
Tentative Tax	\$	193,200
MBT Offset	\$	(53,298)
Tax	\$	139,902
% to Taxable Income		11.4%

Note: This assumes a taxpayer friendly administration definition of "pass-through" revenue.



Residential Sales Real Estate Broker 2012 Tax Return

Recap

Revenue as defined		\$	75,894,000
Commissions		\$	(60,708,000)
Operating Expenses		\$	(13,956,000)
	Taxable Income	\$	<u>1,230,000</u>

Alternative Margin Calculations

A. 70% of Revenues \$ 53,125,800

B. Cost of Goods Sold

Revenue	\$	75,894,000	
Cost of Goods Sold	\$	-	\$ <u>75,894,000</u>

C. Compensation

Revenues	\$	75,894,000	
Compensation	\$	(5,526,000)	\$ <u>70,368,000</u>



Residential Sales Real Estate Broker 2012 Tax Return, continued

Smallest Taxable Margin		\$	53,125,800
	Tax Rate		<u>2%</u>
	Tentative Tax	\$	1,062,516
	MBT Offset	\$	(53,298)
	Tax	\$	1,009,218
	% to Taxable Income		82.1%

Note: This assumes a taxpayer friendly administration definition of "pass-through" revenue.



Residential Home Builder 2012 Tax Return

Recap

Revenue as defined		\$	13,330,000
Cost of Goods as defined		\$	(8,830,000)
Operating Expenses		\$	(2,099,000)
	Taxable Income	\$	<u>2,401,000</u>

Alternative Margin Calculations

A. 70% of Revenues \$ 9,331,000

B. Cost of Goods Sold

Revenue	\$	13,330,000	
Cost of Goods Sold	\$	(8,830,000)	
			\$ <u>4,500,000</u>

C. Compensation

Revenues	\$	13,330,000	
Compensation	\$	(519,000)	
			\$ <u>12,811,000</u>



Residential Home Builder 2012 Tax Return, continued

Smallest Taxable Margin		\$	4,500,000
	Tax Rate		2%
		<hr/>	
	Tentative Tax	\$	90,000
	MBT Offset	\$	(1,665)
	Tax	\$	88,335
	% to Taxable Income		3.7%

Note: This assumes a taxpayer friendly administration definition of "pass-through" revenue.



Family Owned Rental Real Estate Investment Enterprise 2012 Tax Return

Recap

Revenue as defined		\$	6,709,000
Excludable K-1 Income		\$	697,000
Operating Expenses		\$	(6,959,000)
	Taxable Income	\$	<u>447,000</u>

Alternative Margin Calculations

A. **70% of Revenues** \$ 4,696,300

B. **Cost of Goods Sold**

Revenue	\$	6,709,000	
Cost of Goods Sold	\$	<u>-</u>	\$ <u>6,709,000</u>

C. **Compensation**

Revenues	\$	6,709,000	
Compensation	\$	<u>(1,592,000)</u>	\$ <u>5,117,000</u>



Family Owned Rental Real Estate Investment Enterprise 2012 Tax Return, continued

Smallest Taxable Margin		\$	4,696,300
	Tax Rate		<u>2%</u>
	Tentative Tax	\$	93,926
	MBT Offset	\$	(12,016)
	Tax	\$	81,910
	% to Taxable Income		18.3%

Note: This assumes a taxpayer friendly administration definition of "pass-through" revenue.



Education Initiative Proposed Tax Margin

Effective Tax Rates

2012 Tax Return Info

Industry	Effective Tax Rate	Combined Business Tax Rate; including Modified Business Tax
Real Estate Broker	11.4%	15.7%
Residential Sales Real Estate Broker	82.1%	86.4%
Residential Home Builder	3.7%	3.7%
Family Owned Rental Real Estate Investment Enterprise	18.3%	21.0%



Questions?



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