State senator backing bill to repeal annuity tax

Nevada rate among highest in country

By JOHN G. EDWARDS
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Ronald and Elaine Stoller study their financial records. They were shocked to hear that taking monthly payments from an annuity triggers a state tax that would wipe out the annual interest they earn on the annuity.
Photo by Ralph Fountain.

Ronald Stoller, 78, a retired university professor and former county agent, began looking at sources of income late last year when his wife started getting some big medical bills.

He decided they needed to start taking payments from an annuity he established several years ago. In financial jargon, he wanted to annuitize the investment and start getting monthly payments that would be guaranteed for the rest of their lives.

What he learned about annuities, however, changed his mind and led him to push for new state legislation to eliminate the state's 3.5 percent tax on annuities.

"That's more than (the annuity) was earning," Stoller said. "That's robbery."

State Sen. Bob Beers, R-Las Vegas, and other legislators agreed and have introduced a bill to eliminate the tax, which is the highest among the seven U.S. states that tax annuity payments. Others note, though, that Nevada taxes all insurance premiums, including those for annuities.

Howard Roitman, a tax attorney and investment adviser who sells annuities, applauds Beers' bill but said he recommends annuities, which grow free from federal income taxes until the funds are pulled out, to many clients despite the tax.

"The federal tax benefits so dramatically outweigh anything like a 3.5 percent tax that it's almost irrelevant," Roitman said. Yet, he supports the bill.

"You don't really want to tax peoples' retirement savings do you?" Roitman observed. "And that's what annuities are, retirement savings."

Advocates of Beers' bill note that even California, a relatively high-tax state, imposes a smaller tax on annuities. California's tax is 2.35 percent on nonqualified annuities that are not part of an employer-provided employment plan. It collects 0.5 percent on employer-provided annuities, however, and Nevada does not tax this type of annuity.

The insurance premium tax is one of Nevada's oldest, dating back to the legislative session of 1864-65, shortly after Nevada became a state, the Legislative Counsel Bureau said. A legislative definition of annuities in 1971 made it clear that annuities were an insurance product for taxation purposes.

Beers' measure, Senate Bill 176, would repeal the tax on annuities, although the senator expects that the Legislature will only reduce the tax during this session.

The Senate Commerce and Labor Committee recently held an initial hearing on the bill. No one opposed the bill, but lawmakers sometimes reserve negative comments for private conversations with their Legislative associates.

Repealing the tax would put a big dent in the state's revenue. The tax will generate $37.9 million in revenue this fiscal year and a projected $41.6 million next year, the Department of Taxation reports.

It accounts for 7.9 percent of general fund revenues. Only the sales and use tax and gaming tax, which each account for about 30 percent of the general fund revenues, are larger sources of revenue for the state.

Beers acknowledged that the revenue loss is the major reason some of his colleagues are concerned about his proposal, but he isn't worried because he sees places where state spending could be reduced.

"I think it's been a decade since the university system has squeezed a penny," Beers said. Nevada's Medicaid health program for low-income residents pays out 20 percent more per recipient than California's does, he added.

The state also has a budget surplus, and Beers estimated state revenues will exceed the budget by 22 percent.

Beers was asked if the strength of the senior citizen vote will sway some lawmakers to vote for a reduction of the annuity tax. "I prefer to think that we haven't completely destroyed the sense of fairness and justice and reward for self-sufficiency (among those who save for retirement), " he replied.

Despite the tax's significant contribution to the state budget, it still escapes the notice of many people who invest in annuities and many financial advisers.

Many annuity holders "get blindsided," said Howard Saxauer, a financial adviser with the Saxauer Group in Las Vegas.

"To me, it's inherently unfair, because the people that are going to end up paying these taxes are the one's that aren't very wealthy," he said.

Wealthy investors rarely annuitize because they don't need the income stream, he said. People who annuitize typically are middle-class retirees who need guaranteed income. In some cases, they lost money in other investment vehicles when the stock market crashed a few years ago, Saxauer said.

Some retirees invest in annuities while they are living in other states and get dinged with the tax when the insurance company sees that they now have a Nevada address, Saxauer said.

Beers, a certified public accountant, and Charles Chinnock, executive director of the Department of Taxation, agree with Saxauer. Therefore, Stoller, who bought his annuity when he lived in Nebraska, can expect to pay the tax if he starts taking monthly payments.

The bill would not affect retirees who receive pension benefits that an employer provides by purchasing an annuity, experts agree. These pensioners already are exempt from Nevada's annuity tax.