A Twenty-Year Review of Wyoming Tax Reform 2000

Presented by: The Wyoming Taxpayers Association

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The WTA is grateful to the hundreds of volunteer board members that have served the WTA since 1937 and an extra special thank you to former WTA Executive Directors Michael Walden-Newman, Erin Taylor and Buck McVeigh for their years of service to the state of Wyoming and tax policy.

WHAT IS TAX REFORM 2000?

Tax Reform 2000 is a report that was commissioned by the Wyoming State Legislature in Senate Enrolled Act No. 56, which was adopted in 1997. The report's stated goal was "to recommend standards and options for developing a fair, viable and economically competitive state and local tax structure capable of generating sufficient revenues to meet expected needs of the 21st century."

Tax Reform 2000 focused on fixing some of the fundamental problems with Wyoming's tax structure, and how to make it more equitable, stable and balanced. It found that Wyoming's tax structure was regressive because of its dependence on mineral markets and unbalanced because minerals paid the majority of taxes in the state of Wyoming.

TAX REFORM 2000: FINDINGS AND RECOMMENDATIONS

Wyoming Taxpayers Association drafted the legislation in 1997 that established the Tax Reform 2000 Task Force, an executive / legislative committee that examined Wyoming's tax structure over an 18-month period. At the time, Wyoming faced a $200 million deficit. Wyoming's fiscal condition may have improved dramatically, but many of the Tax Reform 2000 findings remain true today.

- Tax collections in Wyoming are less stable than other states. Future revenue streams may not be adequate to fund the services provided by state and local governments. The feasibility of new sources of revenue in the state should be examined and analyzed.

- The Committee heard testimony from many residents who were concerned about state and local government spending. The Governor and the Legislature should form a separate committee to examine state and local government spending.

- The beneficiaries of the taxes paid are Wyoming residents and non-residents using the facilities in the state, however they are not the primary payers of these taxes. Wyoming has both a larger public infrastructure and larger public services per capita than it would if Wyoming residents had to pay for them entirely.

- Wyoming's current tax structure may contribute to the lack of economic growth in the state.

• Not enough of the mineral taxes are being diverted to trust funds in order to secure public services funding for future generations. Funds currently in permanent trust funds are not managed to maximize income. Permanent funds should be managed to maximize income.

• The reporting and collection of mineral taxes in the state are confusing and time consuming. A separate committee should be formed to arrive at a solution to combine Wyoming's current mineral taxes with one reporting and collection point.

• Wyoming's sales tax exhibits regressivity. The Legislature should examine the exclusions and exemptions in the state's sale tax statues for possibilities of broadening this tax, including the impacts of repealing the sales tax exemption for charitable and non-profit entities.

• There should be stricter compliance with and enforcement of the current use tax statutes. The use tax statutes are difficult to enforce.

• Market values of real estate have risen significantly in some areas of the state causing a property tax burden for individuals on fixed and low incomes. There could be more consistency in assessment values between counties for similar properties with comparable market and production values. In certain areas of the state, the market value of agriculture land far exceeds the production value of the land on which property taxes are assessed.

• The Legislature should implement a real estate transfer tax.

• Local governments are not funded equally in Wyoming, and their financial reporting is inconsistent.

• Wyoming's excise tax rates on cigarettes, alcoholic beverages, and motor fuels are the lowest of surrounding states. These excise taxes should be examined for possible increases.

• Tax administrative authority is not clearly defined. Assessment practices of county assessors vary from county to county. The distinction between tangible and real property is not always clear in the sales tax law.

• Wyoming should consider imposition of an income tax.

CRITERIA FOR DETERMINING AND EVALUATING STATE AND LOCAL REVENUE OPTIONS

The Tax Reform 2000 Committee established that Wyoming's revenue system should:

1. Be accountable to taxpayers. Tax laws should be explicit, not hidden. Tax choices should openly be discussed in full view of the electorate to stimulate debate. It means that policy makers must avoid hidden tax preferences for favored firms or groups of individuals. In a larger sense, accountability means policy makers must examine the costs and benefits of using revenue measures as tools to put non-fiscal policies into effect. Lawmakers have a responsibility to ensure that the policy produces the intended effect and does so at a reasonable cost.

2. Rely on a balanced variety of revenue sources that will provide income to the state in a reliable manner. A balanced variety of revenue sources ensures stable revenues and avoids a concentration of tax burdens on a few sources as to make rates distort economic behavior. A reliable manner also includes the concepts of certainty and sufficiency. The former provides that the number and types of tax changes will be kept to a minimum; the latter requires raising enough revenue to fund the level of services the state wishes to provide as determined by what voters and their representatives are willing to fund. When earmarking is used, there should be a direct link between the recipient of the funds and the earmarked revenue sources.

3. Treat individuals and businesses equitably, imposing similar tax burdens on people and businesses in similar circumstances and minimizing regressivity. Taxpayers must believe that the tax system does not benefit some groups or individuals at the expense of others. Business taxpayers must believe that the tax system creates a level playing field. The measures of regressivity or progressivity should be applied to state and local tax systems as a whole, not to particular taxes and user charges.

4. Be framed in such a way to enhance economic development efforts. The revenue system should attract rather than deter businesses seeking to move into the state, or desiring to stay in Wyoming. The total package a state has to offer for economic development includes public services, energy and labor costs, access to markets, the availability of capital and its tax policies and structure. The total package is the measure of a state's competitiveness. Taxes should help in providing a level playing field with similar treatment for all industries and all firms within a given industry within a state.

5. Be composed of elements that support the ability of local governments to raise revenue to meet their needs. States must recognize the inter-relationship of state and local governments in revenue needs and service obligations. State policymakers must be aware of local government's costs and assure adequate redistribution of state resources to fund local government programs, avoiding competition between state and local governments for tax bases. States should recognize inequalities that may exist between local governments. State government should avoid unfunded mandates on local governments.

6. Be easy to understand and administer, and therefore easy for the taxpayer to comply with as well as for the administrator to apply the system. Ease of administration, sometimes called simplicity, encompasses several closely related principles:

- Minimizing costs to the collecting government (administrative cost) and to the taxpayer (compliance cost).
- Improving enforcement and preventing evasion.
- Reinforcing confidence in the tax system.

Complexity in the tax system encourages special provisions that erode fairness and lower confidence in tax systems and the elected officials who created them. Simplicity makes it easy for taxpayers to comply with the law, for businesses to plan, for the state to administer, and for citizens to understand the system so that they know that others are also paying their fair share.

7. Be responsive to interstate and international economic competition and to changes in business. Interstate and international economic competition is increasing and the way commerce is conducted has changed significantly since the 1970s. A state's overall tax policy needs to be considered in the competitive arena and respond to changes in the business environment. A favorable business climate may encourage new business to come and existing business to remain and expand.

8. Minimize its involvement in spending and land use decisions. The revenue system should ideally leave expenditures to the budgetary system and land use decisions to the owners and elected or appointed officials with jurisdiction over the land. A revenue system may include deductions, exemptions and credits to foster certain spending activities and earmark revenues for specific purposes. Policymakers should be certain that these measures not only do what is expected of them, but also reach their goal at a reasonable cost. State policymakers' influence in local governments' land use decisions should be limited to those decisions that significantly affect the revenue system of the State.

WHAT TAX POLICY CHANGES HAVE BEEN ENACTED IN THE LAST TWENTY YEARS?

Some of the reforms accomplished and other tax policy changes post Tax Reform Committee findings include (please note, this list is not exhaustive nor does it represent the formal position of support or opposition to each proposal by the Wyoming Taxpayers Association):

- Adoption of ad valorem excise taxes on Other Tobacco Products
- Imposition of sales tax on cigarettes
- More revenue is now diverted to the Permanent Mineral Trust Fund, and the fund is now managed to maximize revenue.
- Property Tax relief programs for low or fixed income households have been created.
- Limits on the number of mills taxing districts can levy have been created.
- There is now a uniform system for property assessment across the state.
- Local governments are allowed another optional penny of sales and use tax.
- The sales tax on food has been removed.
- Imposition of sales/use tax on specified digital goods
- 400% increase in cigarette tax
- Adoption of unit based tax methodology on moist snuff tobacco
- Sales tax exemption of tangible personal property (TPP) installed in wind farms
- Repeal of sales tax exemption of TPP installed in wind farms
- Sales tax exemption of TPP installed in data centers
- Sales tax exemption and extension of TPP used in manufacturing
- Sales tax exemption for rolling stock repair
- $1 per megawatt excise tax on electricity generated by wind
- Investment authority expanded for State Treasurer of various permanent funds
- Increase in motor fuel tax
- Apple (iTunes) begin voluntarily remitting sales/use tax for purchases sourced in WY
- Wyoming intervenes in Wayfair v. North Dakota
- Imposition on sales tax on remote sellers (Marketplace Fairness Act)
- Enactment of Collection of sales tax by marketplace facilitators
- Special district reforms
- Creation of State Government Efficiencies Commission

- Imposition of taxes on electric and hybrid vehicles
- Creation of Select Coal/Mineral Bankruptcy Committee to address monthly payment of ad valorem taxes
- Imposition of a statewide lodging lax
- Expanded tobacco taxes to new market entrants (vaping/electronic cigarettes)
- Expanded taxes on gaming activities
- Revised and expanded local government sales and use tax imposition and governance