

***Building Wyoming's  
Tax Structure  
for the  
21<sup>ST</sup> CENTURY***

**REPORT OF THE  
STATE OF WYOMING  
TAX REFORM 2000 COMMITTEE  
JUNE 1999**

TAX REFORM 2000 COMMITTEE

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Honorable Eli D. Bebout

Speaker of the House, Wyoming House of Representatives

Gentlemen:

We are enclosing the final report of the State of Wyoming Tax Reform 2000 Committee. Senate Enrolled Act No. 56 adopted by the 1997 State Legislature requires this document. The document is submitted in two parts: 1) the written report including the executive summary and 2) an appendix which contains supporting documentation.

Wyoming residents prepared this report for Wyoming citizens. It is the culmination of twenty-one months of bi-partisan intense study of Wyoming's tax structure. The committee's mission was to recommend changes to this structure that would make it more fair, viable and economically competitive, providing enough revenue to meet the needs of the future. The committee found problems with the current tax structure that only major changes can remedy. Wyoming's future in a national and global economy depends on numerous internal changes, including the state's tax structure. The recommendations made, though sometime controversial, will bring more equity, stability, and balance to the tax system and help position Wyoming to meet the challenges of the 21<sup>st</sup> Century.

The budget of the committee to perform this study was \$200,000. Approximately, \$70,000 of this amount will be returned to the Policy Development Reserve Account. Committee members would like to express their appreciation to the many individuals from state and local government agencies, business organizations, interest groups, and the public who provided research materials, public input and administrative help during the study process.

Sincerely,

John Hines, Chairman

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Rep. John Hines, Chairman Members: Rep. Ross Diercks Shelby Gerking

Phillip Noble, Vice Chairman Sen. Grant Larson Rob Hurless

Beryl Churchill, Secretary Sen. Bob Peck Warren Morton

Irene Archibald, Executive Director Sen. Raymond Sarcletti Rep. Dennis Smith

# **Executive Summary**

## ***Introduction***

State officials estimate Wyoming will enter the 21<sup>st</sup> century with a \$130 million state budget deficit for the 2001-2002 biennium. Possible budget deficits are not unique in the 1990s. In the past, the state was able to generate more revenue than expected; defer revenue from permanent trust funds; adopt changes in accounting procedures; or increase special consumption taxes. These solutions did not address the root of the state's revenue problems inherent in its tax structure.

Wyoming's tax structure lacks equity, stability, and balance. Households in the lower incomes pay a larger percentage of their income in the state's sales, use, liquor, cigarette, fuel, and property taxes than households at higher incomes. This makes the structure inequitable. Wyoming's bases mineral production taxes on their market values. Many mineral prices are subject to volatile international and national markets. For this reason, Wyoming's tax structure lacks stability. Severance, property, sales, and use taxes paid by the mineral industry accounted for 42 percent of Wyoming's tax revenue in 1998. In the mid-1980s, this figure approached 70 percent. It would still be high, if the market prices of coal, oil, and natural gas had not fallen, and Wyoming's oil production declined. Wyoming's tax structure lacks balance due to an over-reliance on mineral taxes to fund government's daily operating expenditures.

Wyoming relies on four sources of revenue to provide government services: taxes, federal funds (including Federal Mineral Royalties), interest and investment earnings, and miscellaneous revenues (i.e. permits, user fees, and rents).

Property taxes, mineral severance taxes, sales, and use taxes generate the most tax revenue for the state accounting for 92 percent of all tax revenue in FY1998. Excise taxes on cigarettes, liquor and fuel, the corporate franchise tax, estate taxes, and insurance premium taxes are minor sources of tax income. Wyoming does not have a state individual or corporate income tax.

## ***Tax Structure Problems and Recommendations***

The lack of equity, stability, and balance leads to other problems with Wyoming's tax structure. Households in Wyoming have the second-lowest tax burden of all fifty states. Wyoming residents do not contribute as much to the services they receive as residents of other states. Taxes on minerals and federal government funds (32 percent from Federal Mineral Royalties) help provide these services. Since Wyoming residents accept limited responsibility for the services they receive, the state may have a larger public infrastructure and less efficiency in government service provisions than it would otherwise.

Wyoming's tax structure contributes to the lack of economic growth in the state. The committee realizes the state's low tax burden on individuals and most businesses other than mineral companies

creates some growth. This growth, however, means an increased demand for public services and without a change in the state's tax structure; current taxpayers pay for these services. Businesses, with large capital investments, may also hesitate to locate or expand in Wyoming if their future tax liabilities are uncertain due to Wyoming's inability to fund public services with current revenues.

The committee's recommendations include three changes to the tax structure that help solve these problems:

- Adopt a state corporate and individual income tax. A Wyoming State Constitution provision allows credit for sales, use, and property taxes paid during the same tax year from any state income tax due. An income tax that includes this provision makes the Wyoming tax structure more balanced and equitable. Higher incomes would pay a greater portion of the tax, but when all taxes households pay are considered, each level of income would pay approximately the same percentage in state taxes. The tax also brings more stability to the tax system. State residents would assume a greater responsibility for the revenues the state receives and the resulting expenditures. Wyoming's economic development efforts could experience more cohesiveness and certainty.
- Broaden the state's sales and use tax statutes to include more services than currently taxed. The state levies these taxes primarily on goods sold at retail to individuals and businesses. The state taxes food for home consumption and does not tax many services used by higher income households.
- Implement a real estate transfer tax. This tax, paid at the time of sale, is assessed on the sale price of real property. This tax could bring more balance to the tax structure and recoup property taxes lost due to valuing agriculture land at its production value rather than its scenic and recreational value.

The committee does not recommend a decrease in mineral taxes. Instead, the state should divert additional mineral taxes to the Permanent Wyoming Mineral Trust Fund (PWMTF) by adopting new tax sources and freeing mineral taxes from being used for general expenditures. This fund, established in 1974, provides government services for future generations when mineral wealth is depleted or not economically viable in the world's economy. In order to balance the state budget, past legislatures diverted mineral taxes, designated for the PWMTF, to the State General Fund. The state constitution requires the state treasurer to deposit the interest earnings from this fund in the general fund.

The committee recommends managing the state permanent funds to maximize earnings potential. This means limiting the Legislative Designated Investments to those that earn at least a market rate of interest. The state should also continue progress toward investing 25 percent of the PWMTF funds in a stock portfolio, a limit imposed by the constitution and state statutes.

Other recommendations made by the committee include:

- Extend the fourth cent of the sales and use tax past the June 30, 2002 expiration date.
- Adopt possible increases in the cigarette, liquor, and fuel taxes to make these taxes comparable to those of surrounding states.
- Consider possible constitutional amendments to limit property tax increases in areas of the state where property taxes are a burden for individuals on low and fixed incomes. These amendments include a limit on the number of mills levied by each taxing district and optional property tax relief measures for counties.
- Explore new revenue sources including temporary nuclear fuel rod storage, a state lottery system, and an examination of the state land use fee structure for increases.

- Form a separate committee to study not only state government but also local government expenditures.
- Conduct a study of the overall revenue generating authority of local governments before making specific changes to this authority.

The Committee does not recommend additional state sales and use taxes because it increases the burden of taxation on lower income households. An increase in the state property tax and mineral severance taxes would continue the instability and imbalance of the current tax structure.

### ***Tax Administration Issues and Recommendations***

A tax system must be easy to understand and to administer. The committee recommends these revisions to Wyoming's tax administration system:

#### ***Mineral Taxes***

1. The mineral industry reports and pays the severance tax, the mineral property tax, and the oil and gas conservation tax separately. The committee recommends a special committee to determine a method to streamline this process by requiring one reporting and collection point for all three taxes.
2. State statutes do not clarify which entity, the state or the county, has final authority to determine the appraisal method used for the valuation of mineral production. The appraisal methods are also confusing. Both problems cause an increased number of appeals before the State Board of Equalization. The legislature should state which entity has final authority and review appraisal methods for simplification.

#### ***Property Taxes***

1. There are inconsistencies in the assessment values of similar properties with comparable market and production values. Local assessors, as elected county officials, should be allowed a certain amount of judgement leeway. The committee believes the public endorses an elected assessor form of government, and must tolerate a certain lack of uniformity. Recommendations to help curb this problem include redefining the definition of agriculture land, and the cooperation of all of Wyoming county assessors to use common appraisal forms.
2. The committee recommends a review of all property tax exemptions for applicability and ease of administration.
3. State statutes for special taxing districts are inconsistent and confusing and should undergo legislative review.

#### ***Sales and Use Taxes***

1. The exemption, allowed charitable and non-profit entities from sales and use taxes for goods purchased for their own use, is difficult to administer. Businesses must keep a certificate from every organization that receives this exemption. The legislature should study the impacts of this legislation to determine its cost-effectiveness.
2. Wyoming residents do not pay sales tax on goods purchased over the Internet or through catalog outlets, unless the vendor has a presence in Wyoming, such as a store or a sales agent. An out-of-state business can voluntarily choose to collect the Wyoming sales tax. If residents do not pay the tax to an out-of-state vendor, Wyoming residents must pay the use

tax to the Wyoming Department of Revenue on any purchase made through these outlets. They must also pay the tax on purchases made in a state, like Montana, that does not have a sales tax. Wyoming residents do not understand this law or evade it. The committee encourages more intense education of the state's residents of the law's provisions; stricter enforcement; and cooperation with the state's representatives in Washington to find a national solution to this problem.