

## **THE IMPACT OF FEDERAL TAX REFORM**

The committee did not spend a great deal of time analyzing the potential effects of various proposed Federal income tax reforms such as the flat tax or the impacts of proposed new Federal taxes such as a nationwide sales tax or a value added tax because they do not anticipate that in the next five years that there will be significant changes to the IRS income tax code nor will the income tax be replaced with one of the proposed tax reforms. Except for the three points addressed below, the committee believes their efforts were best spent analyzing and understanding the current Wyoming tax system.

If the Internal Revenue Tax Code was to be amended to disallow the deduction for interest on mortgage loans and property taxes, real estate values could decrease substantially, as much as fifteen to thirty-four percent. Since most states use market value to determine property tax assessments, this could significantly effect the income from property taxes. County governments in Wyoming who rely heavily on the taxation of property, other than minerals, as their primary tax source would be especially impacted.

The largest impact of the imposition of any of the various potential Federal reforms would be how to continue to collect the state's sales, excise, severance and property taxes if the method of measurement at the Federal level would change. For example, would the state still be able to assess a state sales tax, especially the optional sales tax voted upon the electorate, if the Federal government instituted a nationwide sales tax.

Recent Federal estate tax reform will have a slight impact on Wyoming estate tax collections since Wyoming's tax is a percentage of the Federal estate tax. The Federal government increased the exemption equivalent amounts to be phased in by the year 2006. This will decrease the amount of estate tax due to the Federal government and the Wyoming State government. This will not have a significant impact on Wyoming's total revenues since estate taxes are insignificant to the total tax collections of the state. Wyoming's taxpayers will benefit from these changes, since estate taxes will be lower.