

# Louisiana Tax Study, 2015

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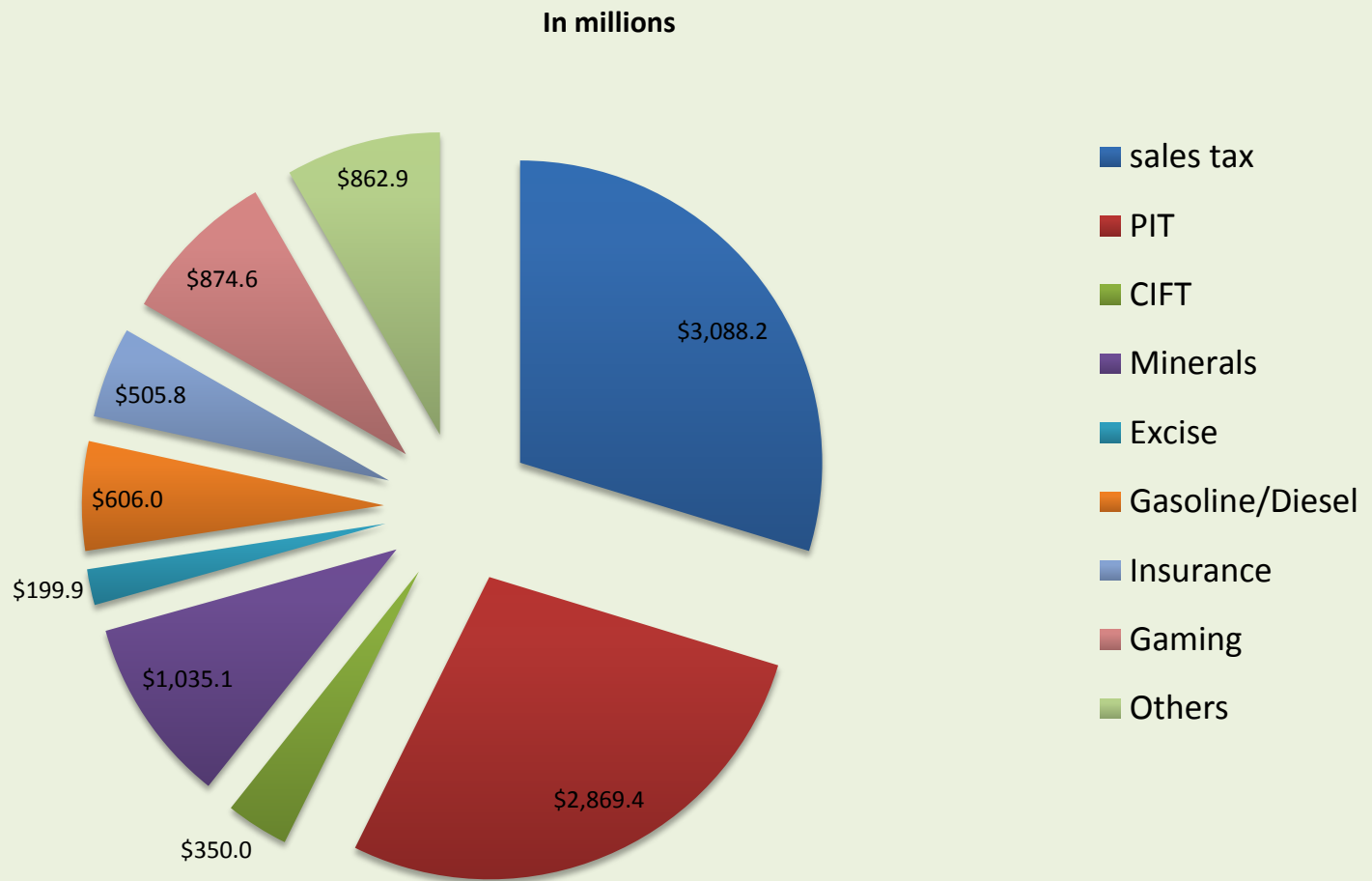


# Purpose of Louisiana Tax Study

- Our goal is **not** to establish how much money the state should raise in tax revenues—**this is properly the domain of elected officials.**
- Tax structure must:
  - Provide sufficient revenues
  - Be predictable and stable
  - Promote competitiveness
  - Be fair
  - Be simple
- Economic Principle: **Broad Tax Base and Low Tax Rate**

# Tax Structure, Fiscal 2015

## Louisiana's tax sources at point in time



# Out-of-state Tax Experts and Louisiana State and Local Tax Participants

**William Fox (University of Tennessee) and George Zodrow (Rice University)** gave high priority to:

- 1) Expanding state sales tax base by limiting exemptions and taxing services
- 2) Coordinating administration of state and local sales tax collections
- 3) Lowering personal income tax rates by removing many exemptions
- 4) Aligning state excise taxes (alcohol, fuels, and tobacco) with other states
- 5) Lowering corporate tax rates, re-examining corporate franchise tax, and reviewing corporate income apportionment

**State and Local Tax Authorities and Participants** generously shared information—our recommendations do not necessarily represent their positions

# Personal Income Tax

	Proposed Change	Explanation
Rates	<ol style="list-style-type: none"> <li>1. Lower rates to 1%-3%-5%</li> </ol>	<ul style="list-style-type: none"> <li>• Makes LA tax rates lowest in south with broadest tax brackets</li> </ul>
Tax Base	<ol style="list-style-type: none"> <li>2. Eliminate federal tax deductibility and excess itemized deductions</li> <li>3. Limit tax credits allowed to other states to potential tax liability in Louisiana</li> <li>4. Repeal net capital gains exclusion</li> <li>5. Examine and review other major exclusions</li> <li>6. Place moratorium on new tax credits</li> <li>7. Decouple state EITC from federal EITC</li> <li>8. Sunset other tax credits</li> </ol>	<ul style="list-style-type: none"> <li>• Reduces volatility related to federal tax changes</li> <li>• Expands tax base and lowers rates</li> <li>• Generates \$200 million</li> <li>• Maintains progressivity – flat rate tax cannot achieve progressivity</li> <li>• Gives modest tax reduction for taxpayers making under \$120,000</li> </ul>

# Comparison with Southern States

States	Lowest Marginal Tax Rate	Applies for first \$	number of marginal tax rates	Highest Marginal Tax Rate	When Top Rate Becomes Effective	Federal Tax Liability Deduction
AL	2.0%	\$500	3	5.00%	\$6,000	yes
AR	1.0%	\$4,099	6	7.00%	\$34,000	no
GA	1.0%	\$750	6	6.00%	\$10,000	no
KY	2.0%	\$3,000	6	6.00%	\$75,000	no
LA	2.0%	\$25,000	3	6.00%	\$100,000	yes
LA, Proposed	1.0%	\$25,000	3	5.00%	\$100,000	no
MS	3.0%	\$5,000	3	5.00%	\$10,000	no
NC	5.8%	flat rate	1	5.8%	flat rate	no
SC	3.0%	\$2,850	5	7.00%	\$14,250	no
VA	2.0%	\$3,000	4	5.75%	\$17,000	no
WV	3.0%	\$10,000	5	6.50%	\$60,000	no

# PIT Exemptions and Credits

Exemption/Credit	Amount	Source	Suggestion
Federal Tax Liability	\$735 million	constitution	change
Excess Itemized Deductions	\$345 million	statutory	change
Personal Exemption-Standard Deduction	\$279.3 million	statutory	maintain
Retirement Benefits	\$154.7 million	statutory	maintain
Taxes Paid to other States	\$71.4 million	statutory	change
Earned Income Credit	\$46.2 million	statutory	Keep but decouple from federal EITC
Net Capital Gains	\$40 million	statutory	change
Others	\$320 million	statutory	sunset and renewal if approved by Legislature

# Corporate Income and Franchise

	Proposed Changes	Explanation
Rates	1. Change corporate tax rates to single 5%	<ul style="list-style-type: none"> <li>• Current top rate of 8% is highest in South:               <ul style="list-style-type: none"> <li>○ 5.0%, MS and SC</li> <li>○ 5.5%, FL</li> <li>○ 6.0%, GA and KY</li> <li>○ 6.5%, AL, AR, and TN</li> <li>○ TX has gross margins tax</li> </ul> </li> </ul>
Tax Base	2. Eliminate federal tax deductibility 3. Enact Addback statute 4. Move to single sales apportionment 5. Move to market sourcing for services 6. Eliminate corporate franchise tax 7. Reduce/eliminate carryback period and maintain carry-forward period	<ul style="list-style-type: none"> <li>• Expanding tax base allows the lowering of rate from 8% to 5%</li> <li>• Reduces volatility from federal tax changes</li> <li>• Improves Louisiana business tax ratings</li> <li>• Provides stability for businesses in defining income</li> <li>• Is approximately revenue neutral</li> </ul>



# CIFT Exemptions and Credits

Exemption/Credit	Amount	Source	Suggestion
Subchapter S Corp	\$478 million	statutory	maintain
Inventory Ad Valorem	\$408 million	statutory	change
Net Operating Loss	\$318 million	statutory	change
Federal Tax Liability	\$175 million	Constitution	change
Quality Jobs	\$46 million	statutory	Major Revision
Enterprise Zone	\$36 million	statutory	Eliminate or major revision
All others	\$153 million	statutory	sunset and renewal if approved by Legislature

# Sales and Use Tax

	Proposed Changes	Explanation
Rates	Do <b><u>not</u></b> increase state rate	<ul style="list-style-type: none"><li>• 4% state rate is comparable to other states, but state and local rates average close to 9%, third highest in nation</li></ul>
Tax Base	1. Expand sales tax base by including personal services, and review and sunset sales tax exemptions	<ul style="list-style-type: none"><li>• Expanding sales tax base allows state sales tax rate to be decreased, consistent with growth of tax collections over time as services grow</li><li>• Is slightly more progressive</li></ul>

# Sales and Use Exemptions

Exemption/Credit	Amount	Source	Suggestion
Food for home	\$388 million	Constitution	maintain
Electrical Power-nonresidential	\$320 million	statutory	maintain
Gasoline, Fuels	\$300 million	Constitution	maintain
Prescription Drugs	\$288 million	Constitution	maintain
State/Local Govts	\$210 million	statutory	maintain
Electrical Power-residential	\$176 million	Constitution	maintain
Machinery & Equipment	\$60 million	statutory	maintain
All others	\$932 million	statutory	sunset and renewal if approved by Legislature

# Sales and Use Tax

	Proposed Changes	Explanation
Local-State Administration	<ol style="list-style-type: none"><li>2. Move towards single collector and single audit authority to be done by creation of Local Sales Tax Commission</li><li>3. Move towards unified sales tax base for state and local governments as determined by a new Local Sales Tax Commission in consultation with the state</li></ol>	<ul style="list-style-type: none"><li>• Uniform administration of state and local sales and use tax is essential for long-term sustainability of state and local collections, for fairness to local businesses, and for consistency with almost every other state in the nation</li><li>• Process must be done deliberately since state and local governments are so dependent on sales tax collections</li></ul>

# Severance Tax

	Proposed Change	Explanation
Tax Credits	1. Eliminate horizontal drilling credit	<ul style="list-style-type: none"><li>• Passed in 1994 when horizontal drilling was “infant industry” but no longer</li><li>• Oil and gas prices and costs drive investment decisions</li></ul>
Use of TMS	2. Designate revenues from TMS for “permanent trust fund”	<ul style="list-style-type: none"><li>• Oil and gas are finite resources, and intergenerational equity suggests we should use tax receipts for long-run projects, not to fund recurring expenses</li></ul>
Rates and Base	Do <b>not</b> change in severance tax rates or severance tax base. Instead: 3. Examine and review taxation of oil and natural gas, with goal of realigning tax rates and exemptions as appropriate	<ul style="list-style-type: none"><li>• Rates and bases were established decades ago, and the industry has changed</li><li>• A study on relative taxation of oil and natural gas in Louisiana versus other states is needed</li></ul>

# Excise Taxes

Recommendation: Align with national or regional averages

	Proposed Changes	Explanation
Beer Tax	No change in beer tax (32 cents per gallon)	<ul style="list-style-type: none"><li>• Current tax is equal to national average</li></ul>
Alcoholic Beverages	Change liquor from \$2.50 per gallon to \$5.50 per gallon  Change wine from \$0.11 per gallon to \$0.45 per gallon	<ul style="list-style-type: none"><li>• Align average rates with rates in neighboring states (Arkansas, Mississippi, and Texas)</li><li>• Estimated additional revenues: \$25 million</li></ul>
Tobacco	Change tobacco from \$0.36 per pack to \$1.08 per pack	<ul style="list-style-type: none"><li>• Align average rates with rates in Arkansas, Mississippi, and Texas</li><li>• Estimated additional revenues: \$280 million</li></ul>
Gasoline and Special Fuels	Change gasoline tax from 20 cents per gallon to \$24 cents per gallon	<ul style="list-style-type: none"><li>• Align average rates with national average</li><li>• Estimated additional revenues: \$120 million</li></ul>

# Exemptions and Credits

	Proposed Change	Explanation
Inventory Ad Valorem Tax Credit	<b>Maintain at 75% of value; Over 3 to 5 year replace with other local sources of revenue</b>	<ul style="list-style-type: none"><li>• Inventories should not be part of tax base, but should be replaced with local revenues</li></ul>
Motion Picture Credit	<b>Put cap on amount Legislature is willing to commit to motion picture credit</b>	<ul style="list-style-type: none"><li>• Credit is not a tax program but is an expenditure issue</li><li>• Convert to an annual appropriation</li></ul>
Solar	<b>Put cap on credit and treat as expenditure program</b>	<ul style="list-style-type: none"><li>• Solar is assistance in creating an alternative energy source – how much should state contribute to this new energy source?</li></ul>
All Others, Sales	<b>Allow to sunset and be continued after re-examination by Legislature; Amounts to over \$950 million</b>	<ul style="list-style-type: none"><li>• These range from medical devices to agricultural purchases to purchases of breastfeeding items to specialty Mardi Gras items</li></ul>
All Others, PIT and CIFT	<b>Allow to sunset and be continued after re-examination by Legislature; Amounts to over \$470 million</b>	<ul style="list-style-type: none"><li>• Simplifies tax structure</li><li>• Allows for lower rates</li></ul>

# Property Taxes

	Proposed Changes	Explanation
<p>Property Tax is a local tax although state tax policy affects the base. Local sales and use tax rates are one of the highest in the country. We need to look at alternative local revenue options by focusing on two major property tax exemptions.</p>		
Homestead Exemption	<ol style="list-style-type: none"> <li>Maintain at \$7,500 but do not increase</li> </ol>	<ul style="list-style-type: none"> <li>Rising housing values have broadened property tax base, which keeps millage rates lower</li> </ul>
Industrial Tax Exemption	<ol style="list-style-type: none"> <li>Reform by:               <ul style="list-style-type: none"> <li>Change from 5 years with 5 years renewal to single 7 year exemption</li> <li>Change from 100% to 80% of property included in industrial tax exemption</li> <li>Include local input in final decision</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>Property taxes support local services, but state has total control over industrial tax exemption</li> <li>Most states make this a local decision and do not let exemption apply to educational millage</li> <li>Rising market values expand exemption</li> <li>Assist local governments in being more self-sufficient</li> </ul>



# Purpose of Louisiana Tax Study

- Tax reform is a multi-year process – a process requiring information, analysis, and judgment
- A well-established tax reform plan provides a plan for short-term adjustments and a foundation for long-term economic growth
- As we deal with short-term fiscal issues, make sure we do no harm to long-term fiscal reform

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**We appreciate your attention!**

**Questions?**

**LSU**

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