

Taxes

Louisiana should provide a fair, simple and competitive tax environment for individuals and businesses that produces sufficient and stable revenue for essential government operations and services.



**Create a Fair
and Competitive
Tax
Environment**

Louisiana's tax system lacks fairness, simplicity and competitiveness and has failed to adapt to changing circumstances. The overall tax burden is low compared to other states, but the system's complications leave Louisiana at a disadvantage. Simply put, this is the worst of possibilities.

The tax structure resorts to higher-than-needed rates because it lacks a broad base, with too many exemptions, deductions, exclusions and credits. Businesses face a burdensome, decentralized sales tax collection process. Local governments don't have financial flexibility, leaving them too dependent on the sales tax.

Louisiana made huge strides in addressing problems with its tax structure when lawmakers and voters agreed in 2021 to detangle state income tax collections from federal tax payments. The package of tax changes removed personal income tax and corporate tax deductions for federal income taxes paid in exchange for lowering overall income tax rates, ending a link to federal taxes that made Louisiana's tax collections volatile and hard to control. The tax restructuring effort also eliminated the corporate franchise tax for small businesses, lowered the franchise tax rate for others and ended most excess itemized deductions for individual income taxpayers.

But much work remains to be done to improve Louisiana's tax system.

A state's tax structure shapes expectations about who should pay, while setting up government dependence on certain revenue streams. Changing it is hard. Even if tax restructuring creates a fairer overall system, the changes are likely to be felt unevenly among taxpayers and might distribute revenue differently for state and local agencies.

Louisiana's state rankings for average tax burdens on citizens and businesses tend to be close to the national average or even low, but some of its top tax rates are higher than many other states. The actual average tax bill is often at or below average because of a long list of tax breaks and incentives that lessen the overall tax burden. But industries are treated differently, giving some companies a more advantageous tax position than others.

Meanwhile, the state and local sales tax bases are treated so disparately that it makes compliance for businesses who work across multiple parishes quite tricky.

That is the picture of a broken system.

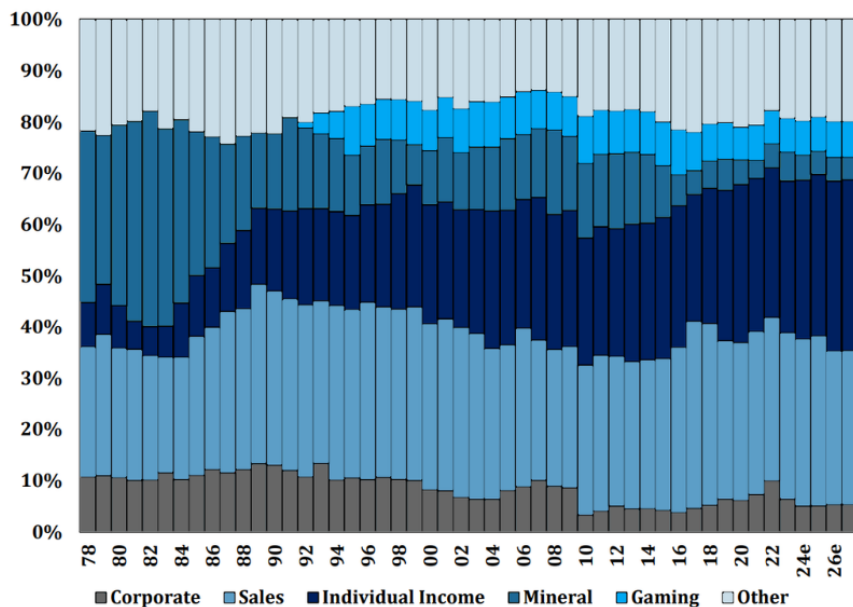
High tax rates are a disincentive to live, invest and hire workers in Louisiana. Because of the complex system that mixes some higher-than-average rates with tax breaks, Louisiana’s tax and business climate rankings nationally are mixed. The state scores well in Site Selection magazine’s tax rankings and poorly on Forbes’ “Best States to Start a Business” list.

The top income sources for Louisiana are the sales tax and the individual income tax, with gambling taxes providing significant sums as well, according to the state Department of Revenue. Oil and gas revenue fluctuates widely, depending on energy prices, and provides a much smaller share of Louisiana’s income collections than in prior decades.

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Change (since 2015)
Sales & Use (General and MV)	3097.0	3348.4	4356.1	4390.0	3910.1	3769.6	4207.3	4970.8	60.5%
Individual Income	2886.1	2877.8	2959.5	3268.6	3719.4	3780.3	3956.6	4556.1	57.9%
Mineral Revenue	1015.1	586.8	516.4	618.1	721.4	552.7	408.8	709.4	-30.1%
Gaming	886.8	906	893.7	890.3	897.5	780.5	915.2	1000.2	12.8%
Gas and Fuels	606.4	622.2	634.9	601.8	635.5	581.2	609.9	621.2	2.4%
Premium Insurance Taxes and Fees	517.1	595.5	952.8	962.3	986.7	1029.5	1121.0	1204.1	132.9%
Corporate Collections	300.1	248.8	388.4	477.6	630.5	578.5	805.4	1402.1	367.2%
Other	1158.8	1214.9	1233.8	1164.5	1138.8	1170.5	1208.4	1138.5	-1.7%
Total Taxes, Licenses and Fees	10468.4	10400.4	11935.6	12373.2	12639.9	12242.8	13232.6	15602.4	49.0%
Less Dedications	2059.2	2503.7	2508.3	2486.9	2599.0	2411.4	2767.8	3867.5	
SGF Revenues	8409.2	7896.7	9427.3	9886.3	10040.9	9831.4	10464.8	11734.9	39.5%

Source: Division of Administration

Percent of Gross State General Fund Revenue by Fiscal Year Taxes, Licenses and Fees



Source: Division of Administration

With large credits and exemptions, corporate income and franchise taxes usually account for a small portion of overall net state tax revenue, but those tax collections have ticked upward during the COVID-19 outbreak as corporate profits surge amid the recovery, an overheated economy and inflation. Businesses pay far more than income and franchise taxes to government, including about half of all sales taxes, most property taxes, revenue from businesses filing through the individual income tax and regulatory fees, according to a recent study of Louisiana’s tax system and the Council on State Taxation.

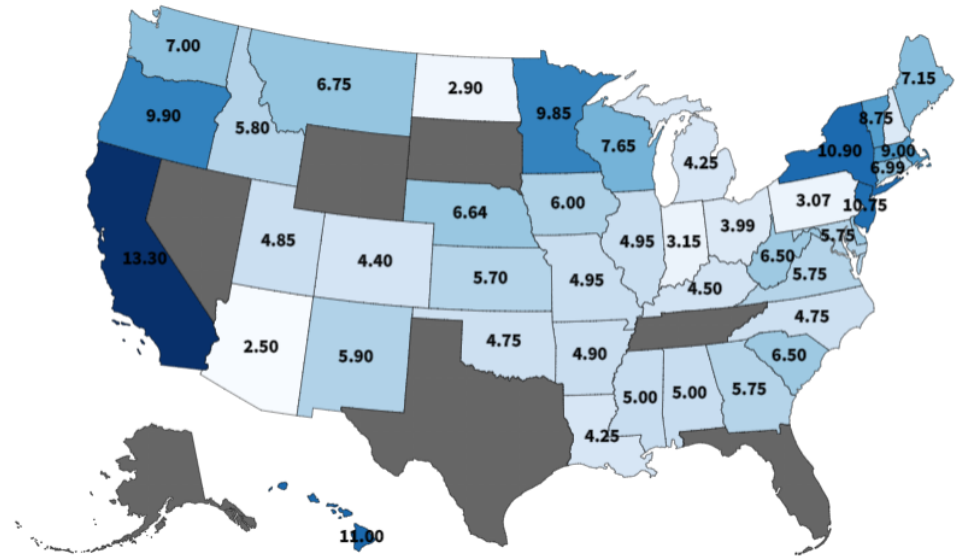
At 9.55%, Louisiana has the highest average combined state and local sales tax rate in the nation, according to the Tax Foundation. That is only a fraction above Tennessee, which has no income tax except for investments. Louisiana has more than 200 sales tax exemptions, according to the state Department of

Revenue, though about 100 continue to be suspended temporarily as part of a short-term tax and budget deal struck in 2018 that expires in 2025. Exceptions to the sales tax narrow the base and place upward pressure on rates.

Top Marginal State Individual Income Tax Rates by State

As of January 3, 2023

2.5% — 13.3%



Source: Tax Foundation

Louisiana is one of few states where local governments collect the sales tax, a system that places businesses at a disadvantage because of multiple rates, a lack of uniformity, different rule interpretations and multiple audits. Efforts to create a more uniform and centralized system of sales tax administration received passage from lawmakers in 2021, but voters rejected the constitutional change required to enact it.

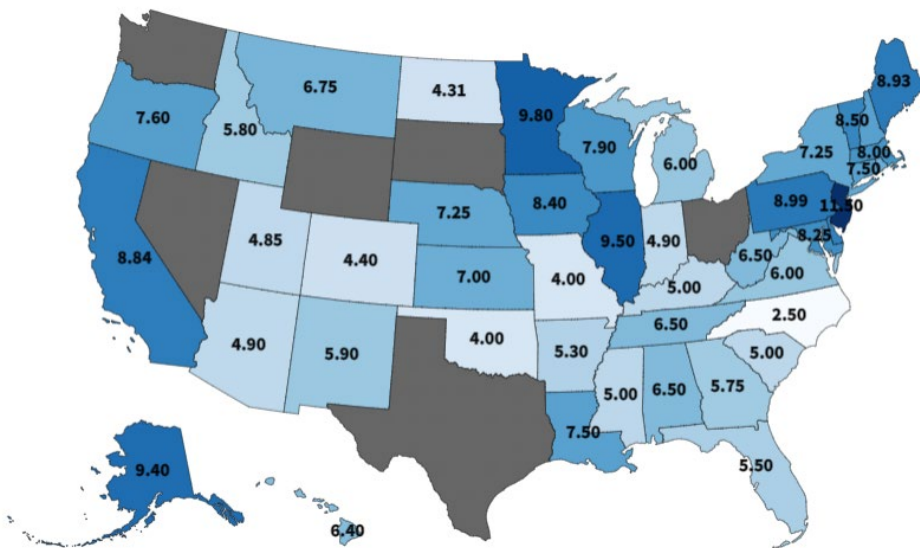
In a bright spot, with the income tax changes passed by lawmakers and voters, Louisiana’s top individual income tax rate of 4.25% is lower than 35 of the 41 states that levy a personal income tax on wages and salaries – including all other states in the Southeast that collect the tax, according to the latest data from the Tax Foundation. Those numbers will change slightly as planned tax cuts enacted in states like Mississippi and Iowa are phased in over

several years, according to information from the National Conference of State Legislatures.

Top Marginal Corporate Income Tax Rates by State

As of January 1, 2023

2.5% — 11.5%



Source: Tax Foundation

On the business side of the ledger, of the 44 states that have a corporate income tax, Louisiana’s upper rate of 7.5% ranks 15th in the country and above other states in the South. The higher-than-average rate is lessened by tax credits, net operating loss offsets and exemptions, but it creates the strong perception of a barrier to economic development.

And while Louisiana significantly reduced its corporate franchise tax and eliminated it entirely for small businesses, the continuation of any such tax is widely recognized as

discouraging investment and inhibiting economic development. If lawmakers want to identify replacement revenue to eliminate the franchise tax, they could look to the corporate income tax, certain tax credits and utility bill sales taxes as potential trade-offs.

Several states are debating whether to eliminate their income taxes entirely, a discussion that has started in Louisiana as well. The personal and corporate income taxes are expected to bring in more than \$5 billion to the state treasury in the 2023-24 budget year. That's about 44% of the \$11.4 billion in state general fund money Louisiana is forecast to collect in the year.

Without replacement money, the loss of the income tax would devastate government programs and services, blowing a massive hole in the state's budget. Any effort to repeal the tax would need to be closely tied to an alternate plan to pay for state services. But removing the tax also wouldn't be a panacea for Louisiana's problems without other changes to improve the quality-of-life issues (education, health care, infrastructure) that are critical to drawing people to and keeping them in a state. At best, removal of Louisiana's income tax would only make the state marginally more attractive unless other core problems are addressed.

On the local level, Louisiana's property tax rates are relatively low, with a large homestead exemption, an assessment freeze for the elderly and additional breaks. The state has one of the nation's lowest property tax burdens, according to the Tax Foundation.

Thirty-one of Louisiana's 64 parishes have half or more of their homesteads 100% exempted, according to a 2022 report from the Louisiana Tax Commission. Seventy percent of homesteads are entirely exempt from property taxes in nine parishes. That leaves local governments far more dependent on volatile sales taxes, creating revenue difficulties in areas. In certain rural parishes, the proportion of totally exempted homes is vast and retail sales are scarce.

The RESET

Louisiana should create a competitive, fairer tax environment with lower rates, fewer tax breaks, greater alignment between state and local tax bases and more stability, while also ensuring sufficient revenue to pay for services. To improve the tax structure, Louisiana should:

- **Centralize and simplify sales tax collections, offering a modernized and uniform system of sales tax administration and auditing.**
- **Eliminate the corporate franchise tax, a disincentive to business investment.**
- **Reduce the number of sales tax exemptions. Permanently eliminate sales tax exemptions the Legislature temporarily suspended and stop creating new ones.**

- **Expand the sales tax base and reduce the tax rate, including taxation of some services.**
- **Simplify and streamline the Industrial Tax Exemption Program.**
- **Remove state tax exemptions from the constitution. Require a two-thirds vote to change or remove exemptions or create new ones.**
- **Give local governments more flexibility for their revenue base and put more emphasis on property taxes. Lower state tax rates in exchange for raising local property tax revenue and decreasing state spending to local governments.**

