

Presentation to Task Force on Structural Change

The Evolution of the Louisiana Tax Structure

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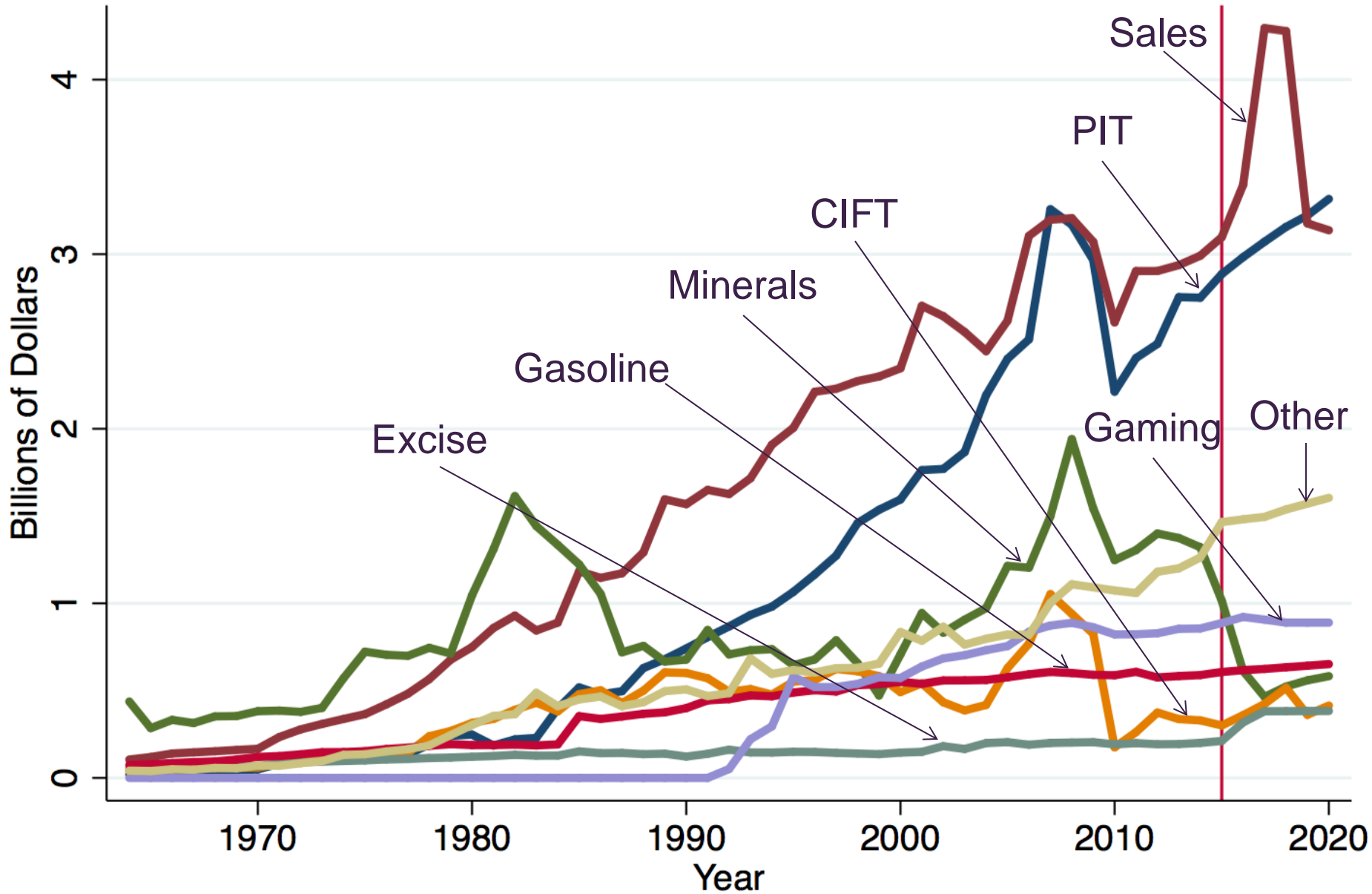
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HISTORY OF LOUISIANA TAX STRUCTURE, 1964 THROUGH 2020

Data made available by Mr. Greg Albrecht, Louisiana Legislative Fiscal Office

Louisiana Tax Revenues by Source



Notable Tax Changes Affecting Louisiana Tax Collections

- 1970 – Sales tax increase from 2 to 3%
- 1973 – Increase oil and gas taxes; reduction in sales taxes and PIT
- 1977 – Increase in Corporate Income Tax
- 1980 – reduction in PIT; increased Homestead Exemption
- 1983 – increase in PIT
- 1984 – increase in sales tax, gasoline, tobacco, franchise, insurance
- 1986 – Federal Tax Reform Act of 1986
- 1987-88 – increase sales tax—eliminated sales tax exemptions--temporary for over 15 years

Notable Tax Changes Continued

- 1990s – gaming (done from 1990 to 1995)
- 1990s – initiated Inventory Ad Valorem Tax Credit
- 2001/2003 – Federal Tax Cuts
- 2002 – **Stelly: switch from Sales to PIT**
- 2002 – Louisiana Motion Picture Tax Incentive
- 2004 – initiated phase out of MME for Sales Tax from 2004 to 2010
- 2007 – initiated Louisiana Earned Income Tax Credit
- 2007 and 2008 – reduction in PIT

History of Income Tax Brackets for Joint Filers (single filer)

Pre 2002 (% of excess itemized deductions allowed)

2%; \$0 to \$20,000 (\$0 to \$10,000)

4%; \$20,000 to \$100,000 (\$10,000 to \$50,000)

6%, over \$100,000 (over \$50,000)

2003 to 2008 (no deduction of excess itemized deductions)

2%; \$0 to \$25,000 (\$0 to \$12,500)

4%; \$25,000 to \$50,000 (\$12,500 to \$25,000)

6%, over \$50,000 (over \$25,000)

Post 2008 (100% deduction of Excess itemized deductions)

2%; \$0 to \$25,000 (\$0 to \$12,500)

4%; \$25,000 to \$100,000 (\$12,500 to \$50,000)

6%, over \$100,000 (over \$50,000)

- Also in 2002, the electorate voted to place a constitutional prohibition against sales tax on:
 - Food purchased for consumption at home
 - Natural Gas
 - Electricity
 - Water sold directly to consumers for residential use
 - Prescription Drugs

In 2002, the state **increased** income taxes and **decreased** sales taxes.

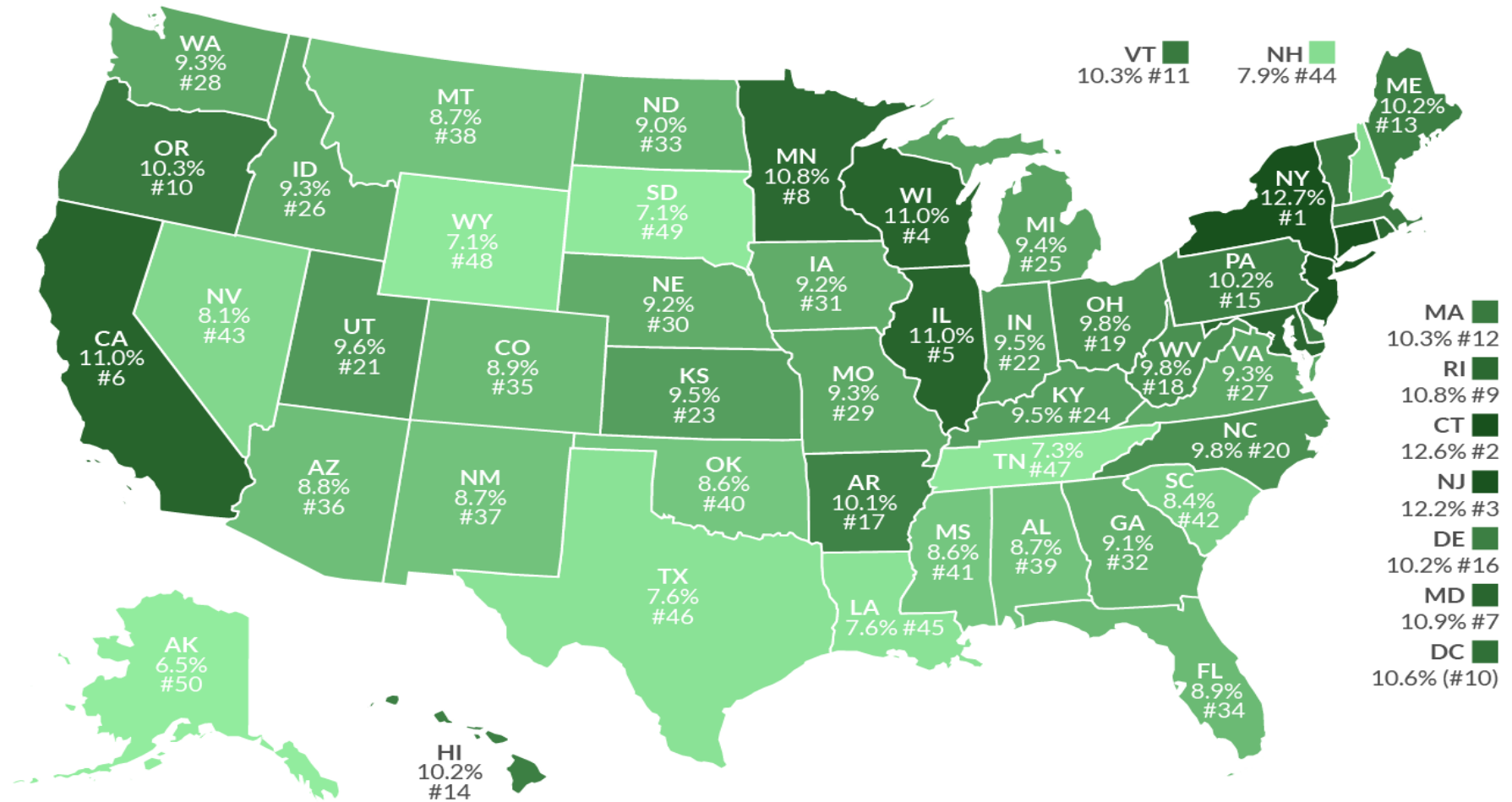
In 2007/2008, the state **decreased** income taxes back to rates similar to pre-2003 and but made **no change** to sales taxes.

Notable Tax Changes Continued

- 2015 – change in tax credits, tobacco
- 2016 – sales tax rate, exemptions, tobacco, liquor, wine, and beer
- 2016 – changes in corporate income tax with add back and other changes
- 2016 – on ballot proposal to eliminate federal deductibility for corporations with rate of 6.5% as opposed to current structure of 4% to 8% with 8% starting at \$200,000

State-Local Tax Burdens by State

State-Local Tax Burdens as a Percentage of State Income, FY 2012



Note: As a unique state-local entity, Washington, DC is not included in rankings, but the figure in parentheses shows where it would rank.

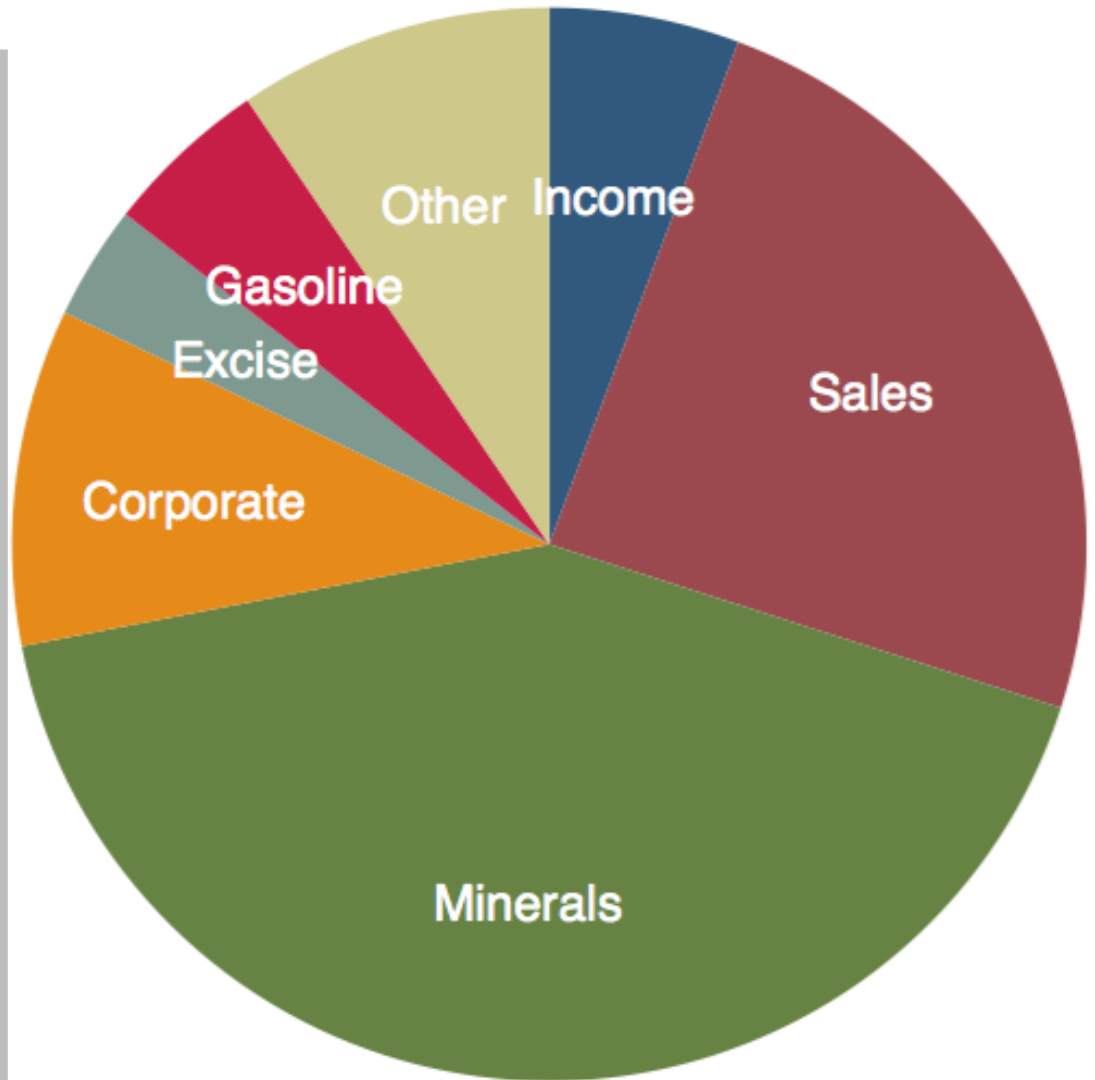
Source: Tax Foundation calculations, U.S. Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association.



Louisiana 1982 Revenue Shares by Source

In 1982, mineral revenues peaked at **42 percent** of total state revenues.

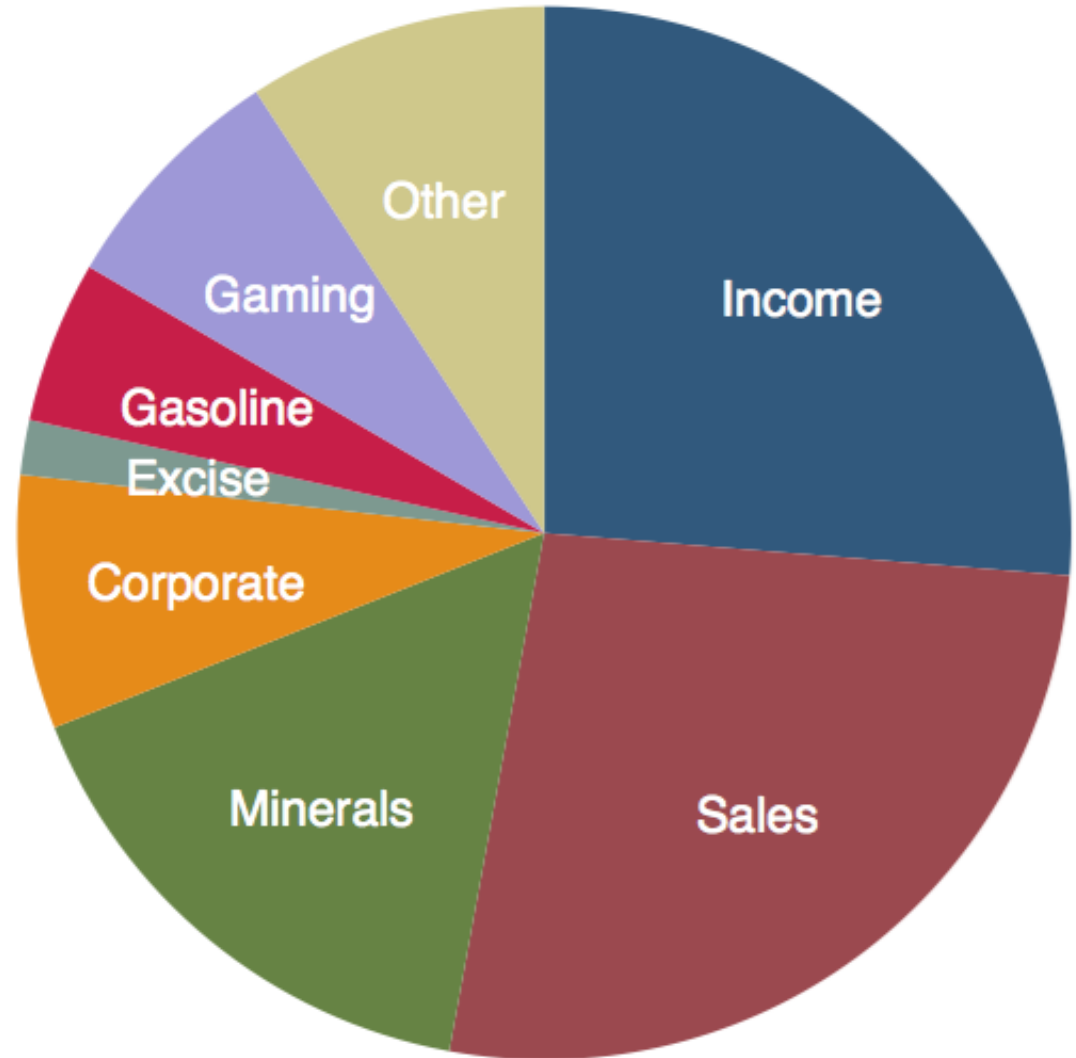
Personal Income Tax was about **5 percent** of Louisiana revenues.



Louisiana 2008 Revenue Shares by Source

In FY 2008, mineral revenues were at a recent high of **16 percent** of total state revenues.

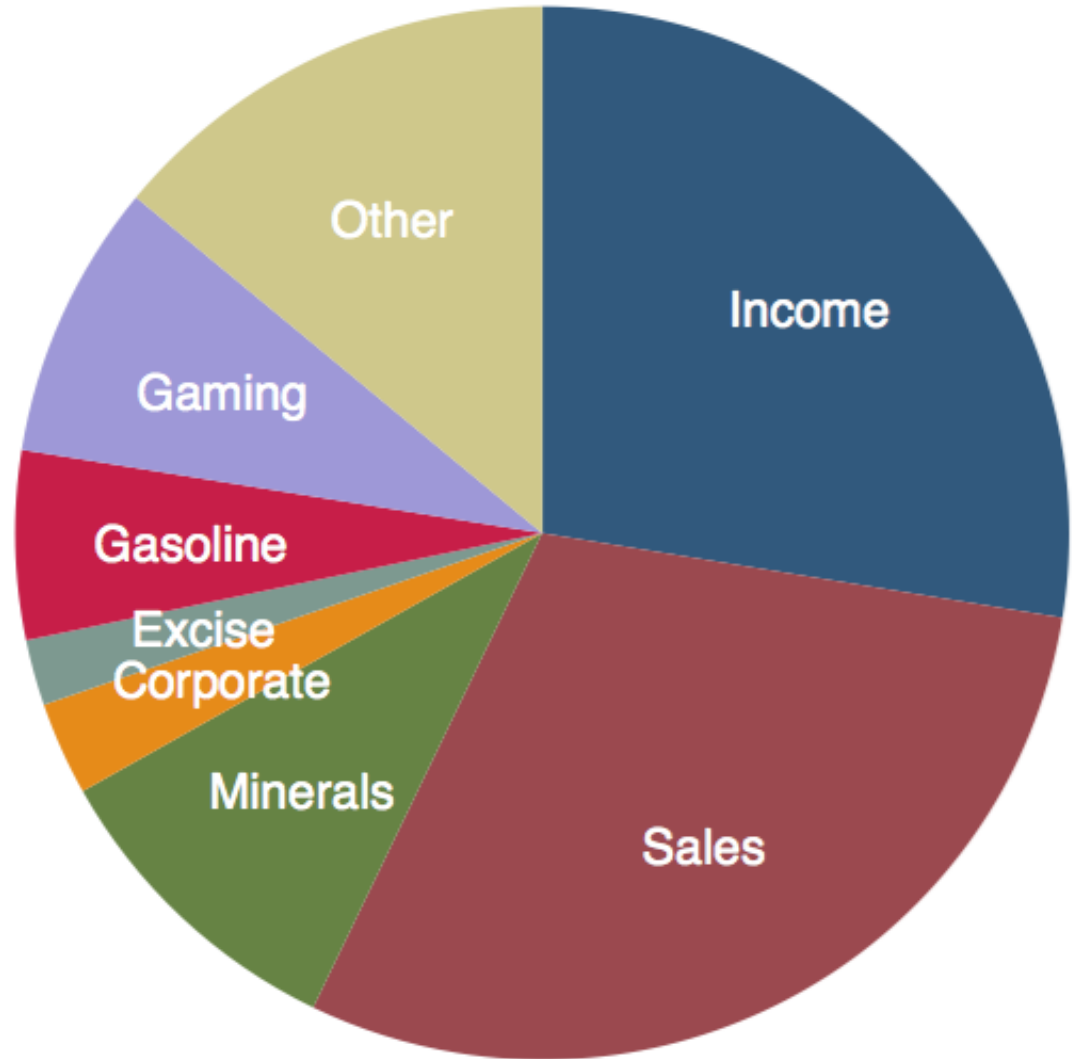
Sales and PIT made up **53 percent** of total revenues.



Louisiana 2015 Revenue Shares by Source

In the FY 2015, mineral revenues were less than **10 percent** of total revenues.

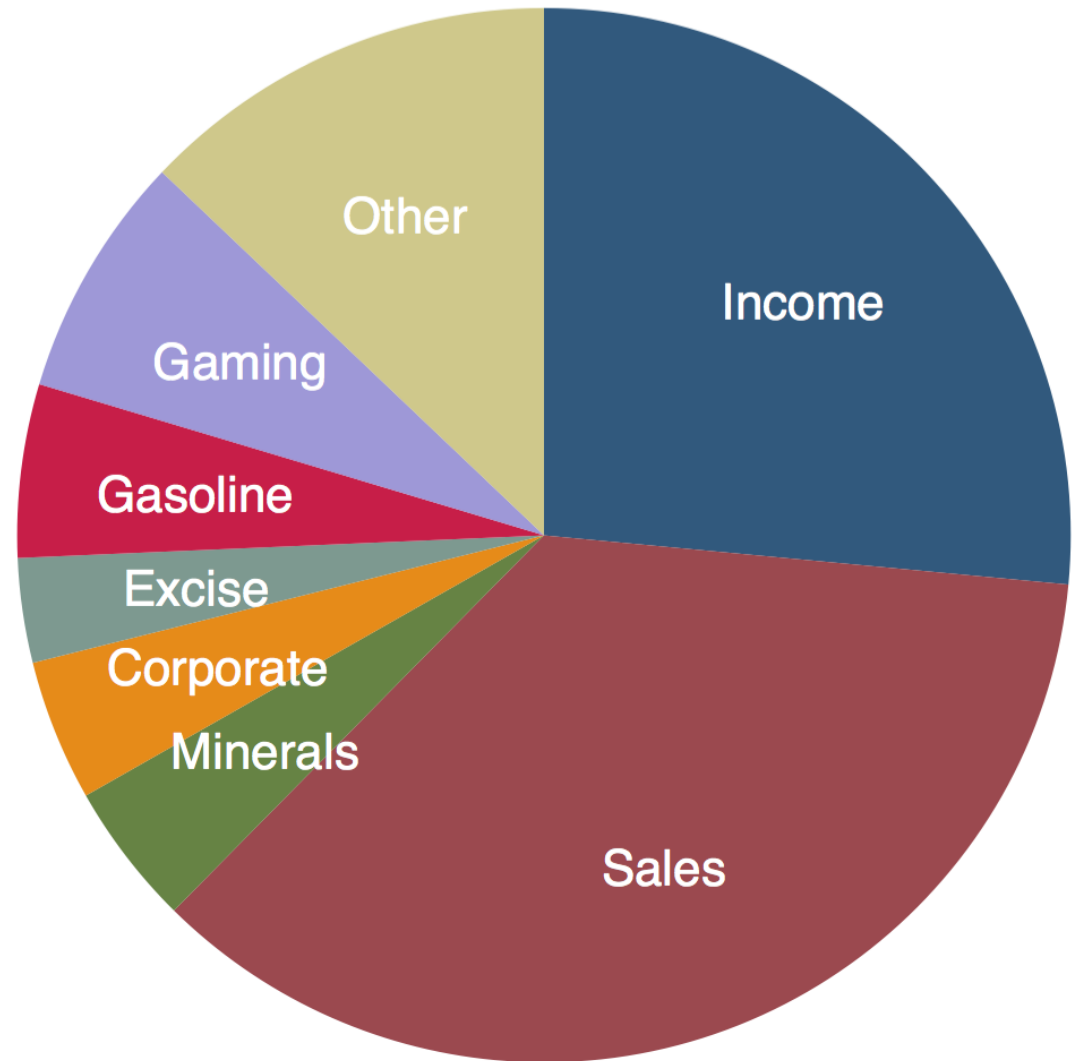
Sales and PIT making up **57 percent** of total revenues.



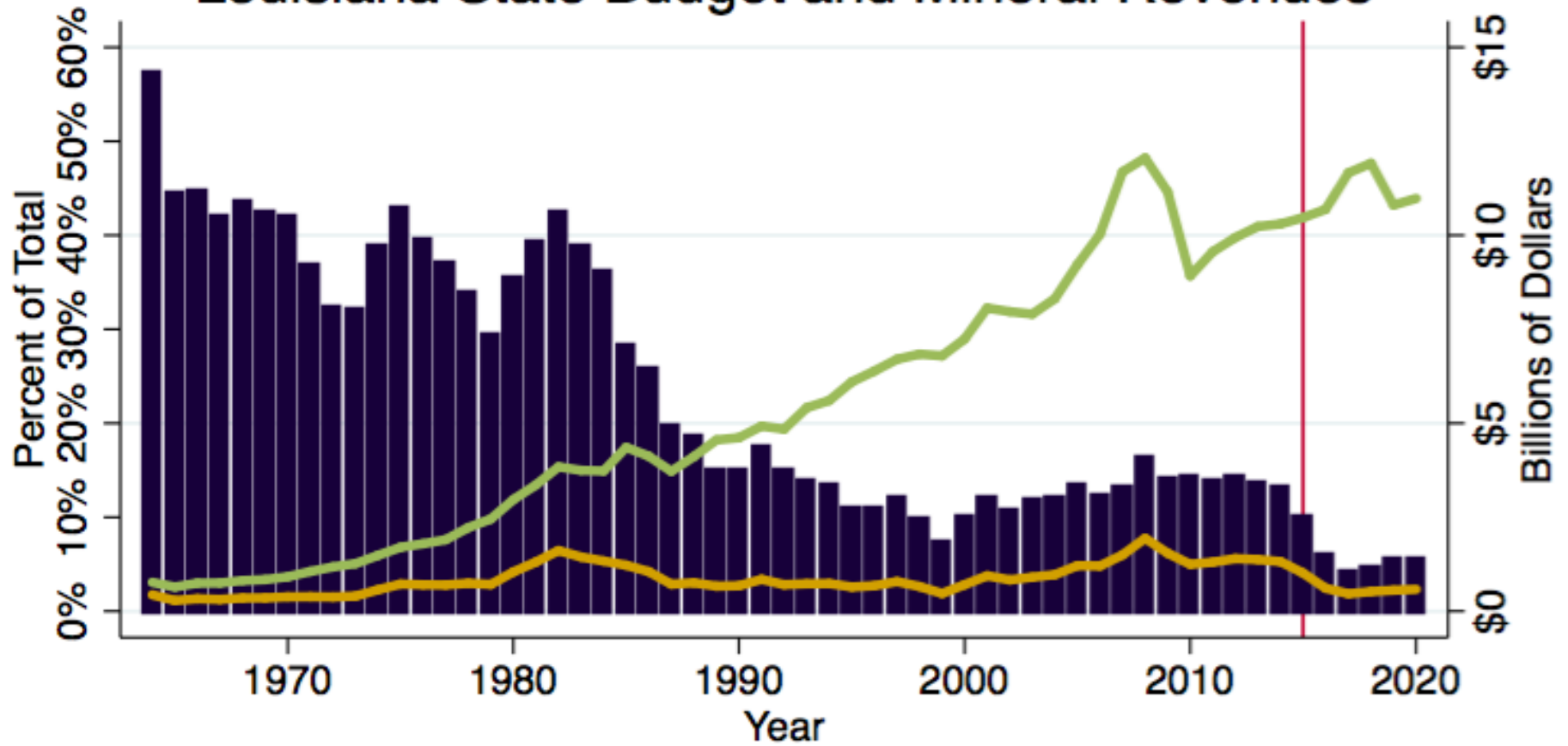
Louisiana 2018 Revenue Shares by Source

In FYs 2017 and 2018, the two years before the tax increases go off the books, sales taxes will make up an estimated **36 percent** of total revenues.

This will be the **highest share** of state revenues made up by **sales tax** in **Louisiana's history**.

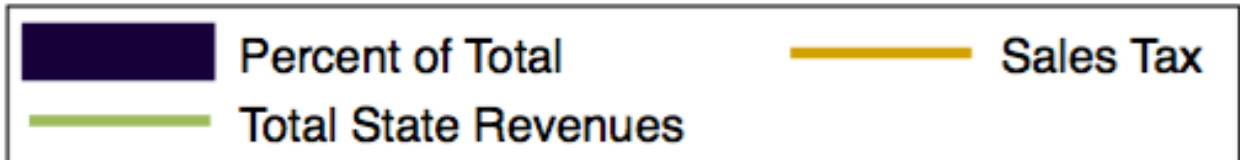
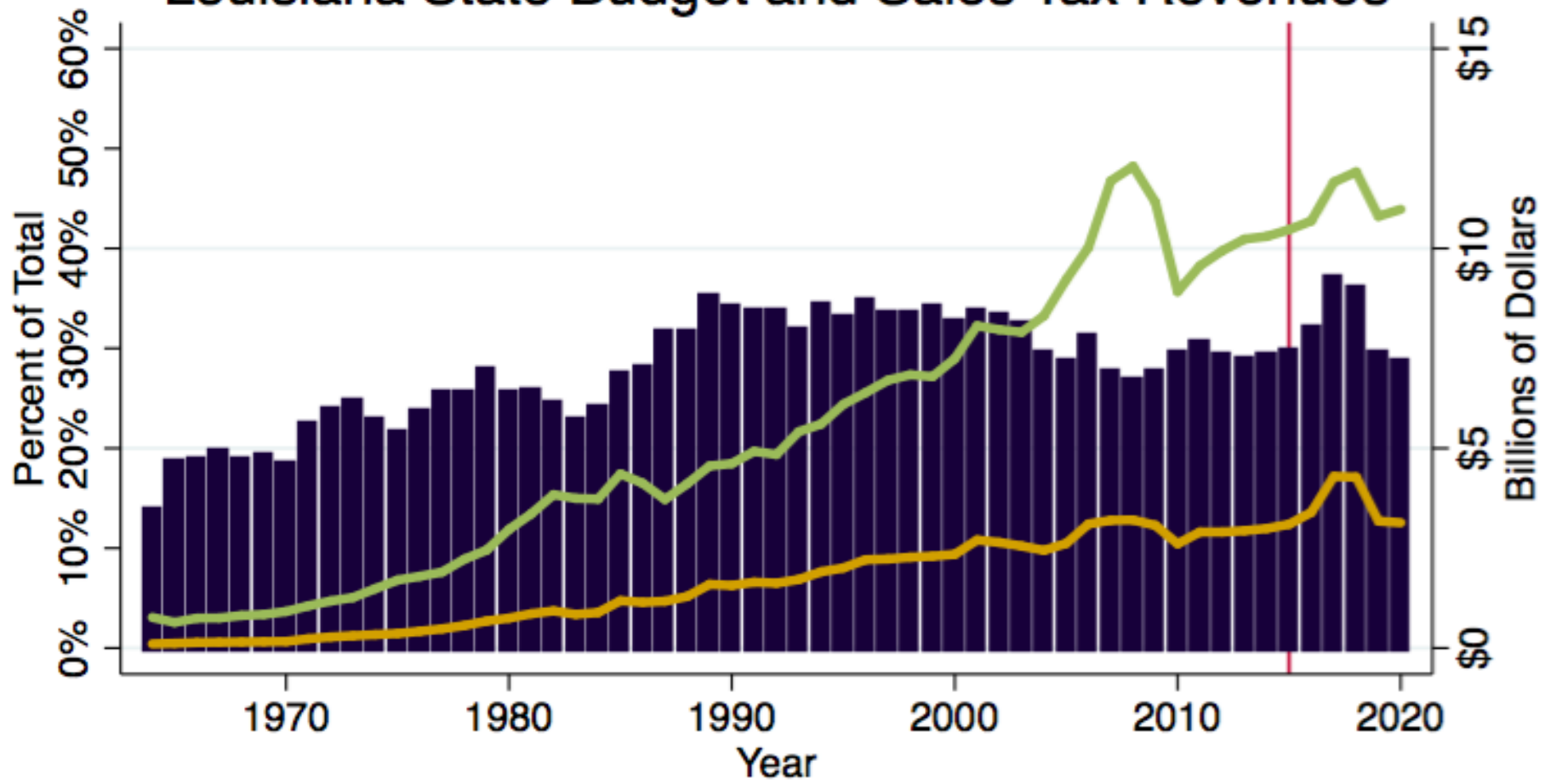


Louisiana State Budget and Mineral Revenues



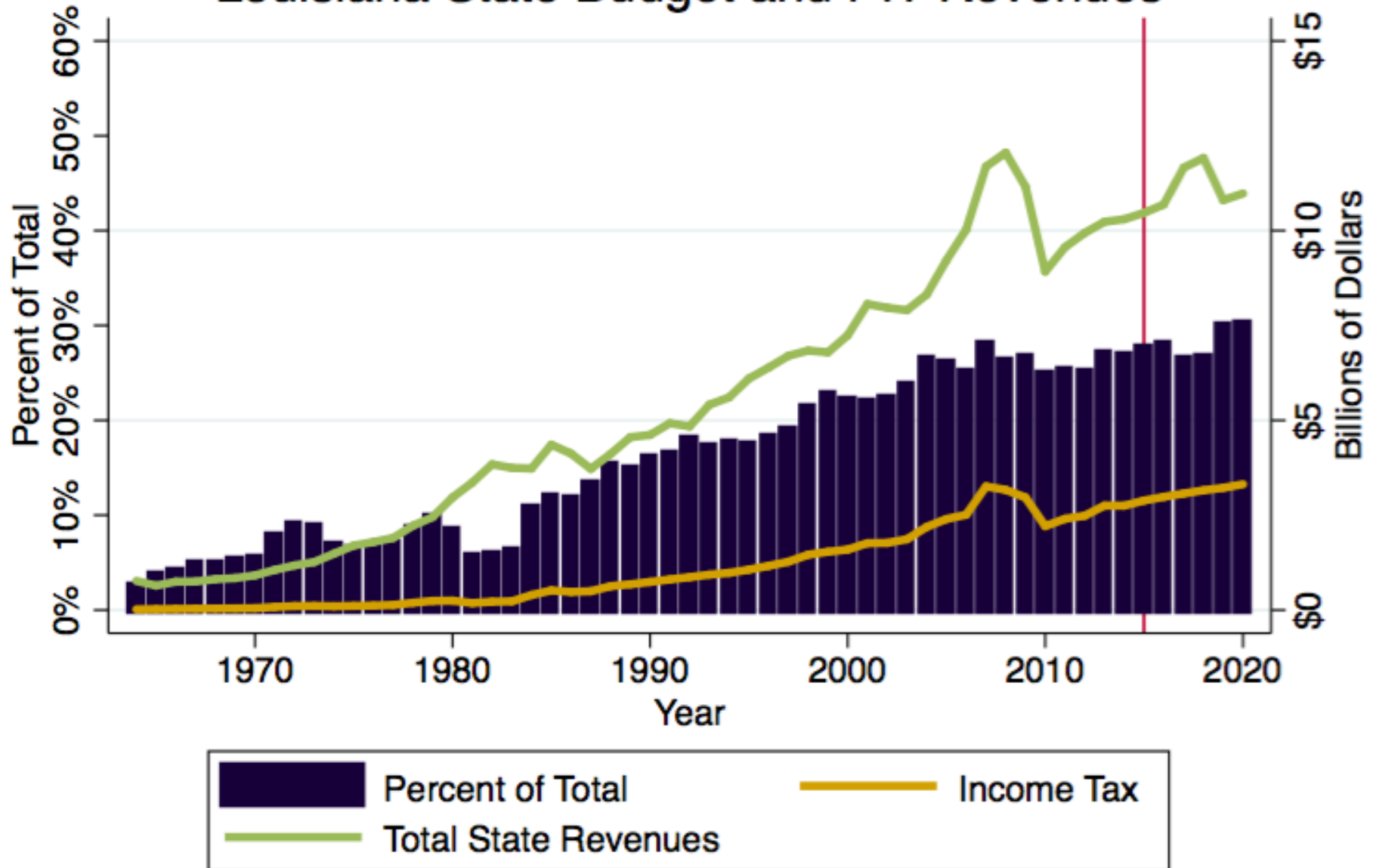
State Revenues include all taxes, licenses, and fees.
 Mineral revenues include both severance taxes and mineral revenues from state lands.

Louisiana State Budget and Sales Tax Revenues



State Revenues include all taxes, licenses, and fees.
 Sales tax includes vehicle sales taxes.

Louisiana State Budget and PIT Revenues

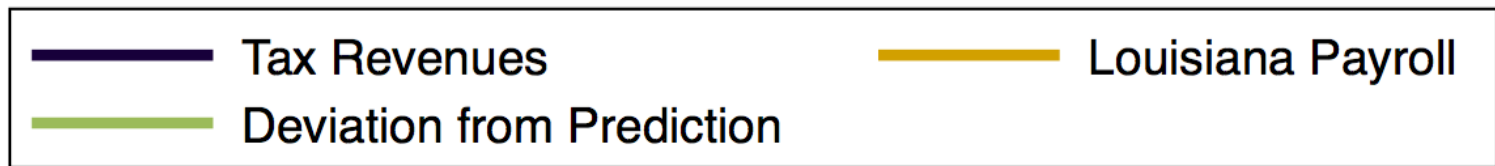
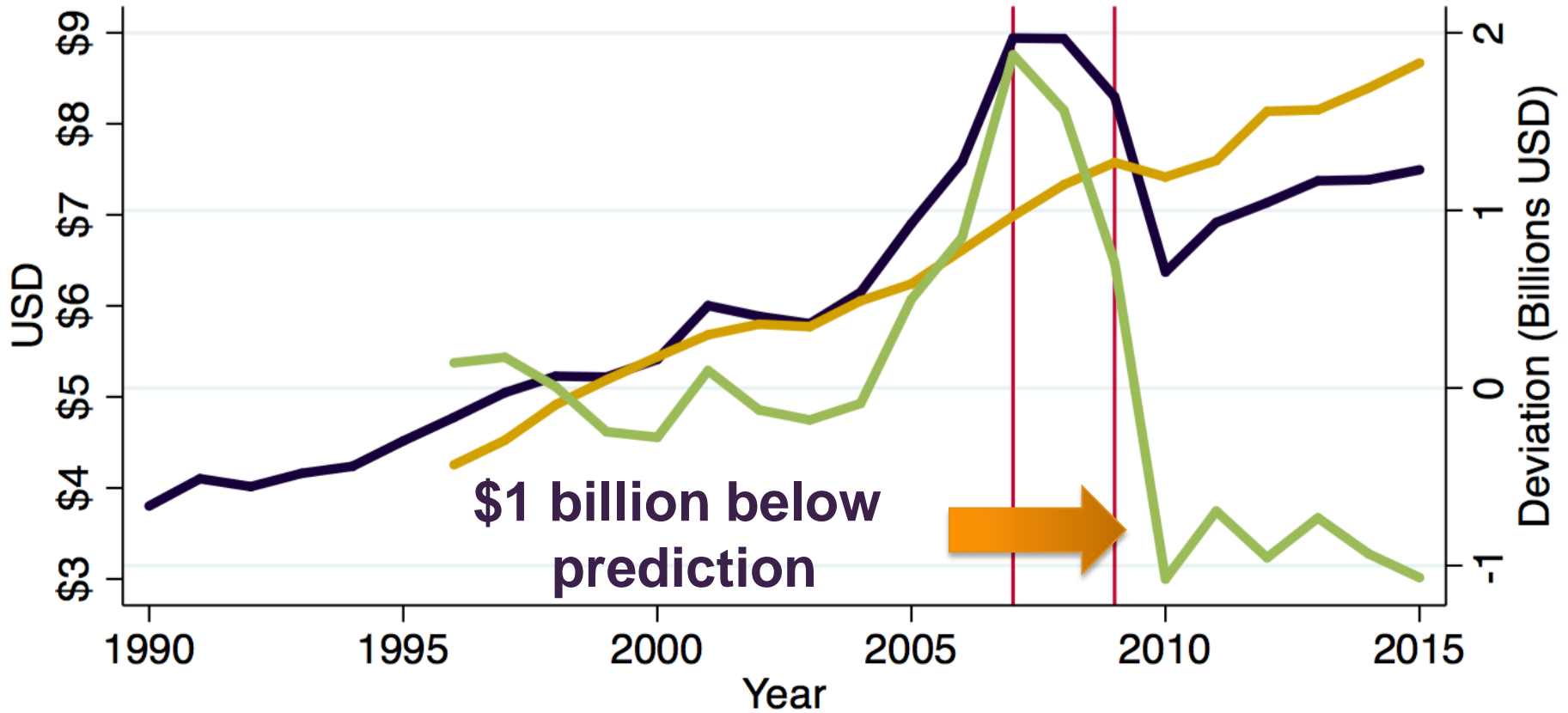


State Revenues include all taxes, licenses, and fees.

- Sales taxes as a share of total revenues have remained relatively flat at 29 percent over the last decade, but will go up as more emphasis on sales tax as of Special Session 2016
- PIT have steadily increased in total share of revenues from about 5 percent in early 1980s to 28 percent in 2015. Most significant impact is federal tax policy.
- Over the last decade, mineral revenues have consisted of about 13 percent of state revenues (taxes, licenses, and fees).
 - This is compared to the 1980s when mineral revenues consisted of about 27 percent of state revenues with a peak of over 40 percent in early 1980s.

Louisiana Tax Revenues

Based on Pre-Katrina Payroll



Payroll in tens of billions of USD. Revenues in billions of USD. Recession dates shown with vertical lines.

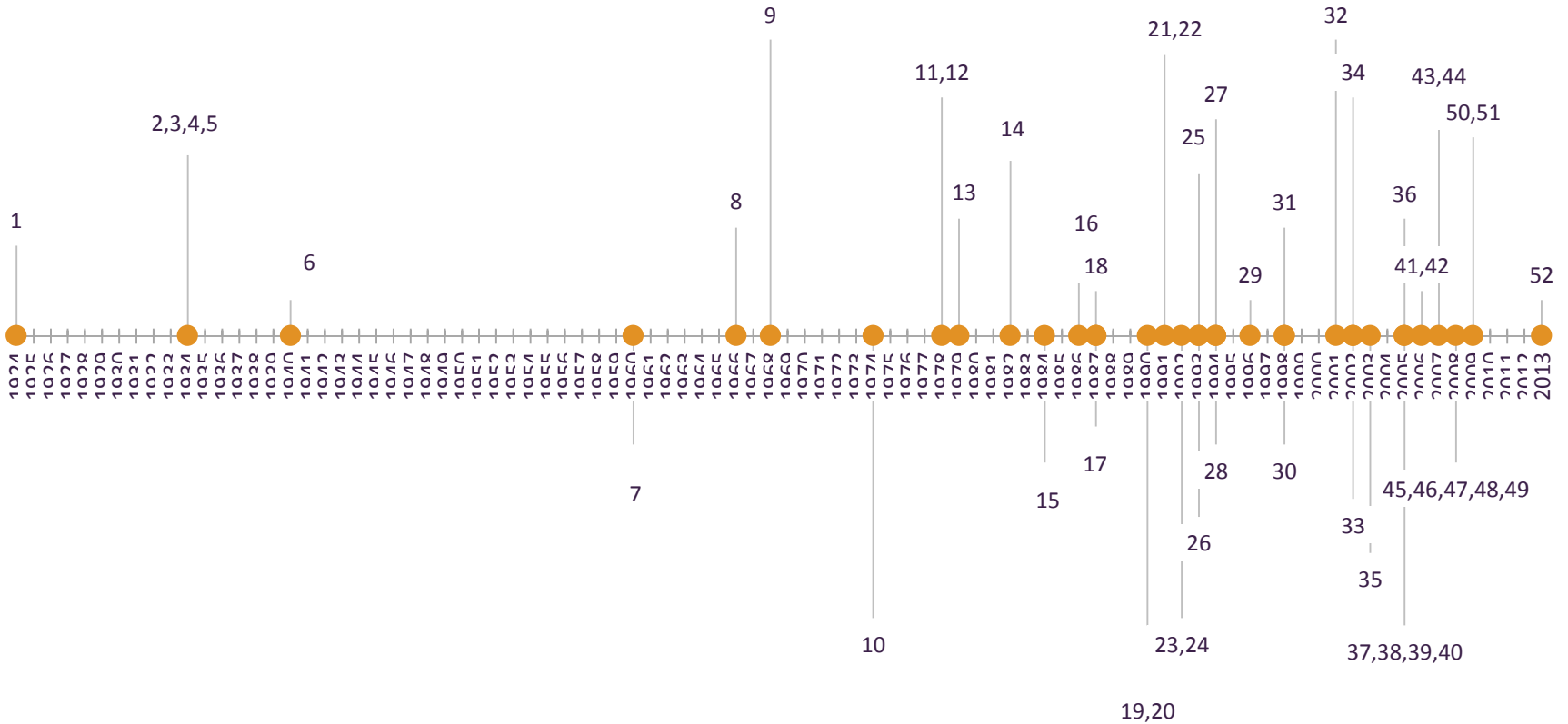
Exemptions, Exclusions, Rebates, and Credits

Exemptions and Exclusions: Erode the Tax Base

Credits: Reduce Tax Liability

**WHEN DID LOUISIANA ADOPT EXEMPTIONS,
EXCLUSIONS, REBATES, AND TAX CREDITS?**

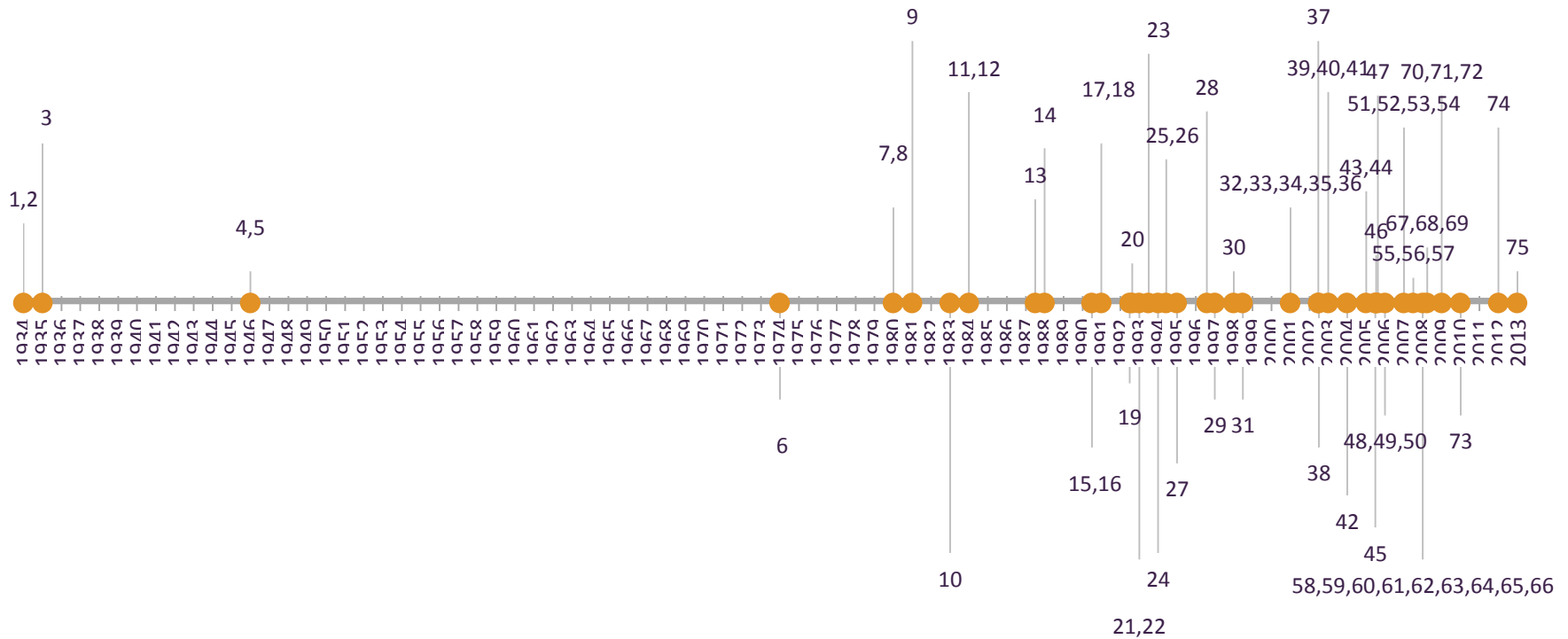
Timeline for CIFT Tax Exemptions and Credits



Corporate Exemptions and Credits, Est. \$1.722 billion

Exemptions and Credits	Projections, 2016
Subchapter S Corporation	\$545 million— not really exemption; a pass-through
Inventory Ad Valorem—modified in 2015	\$458 million— must apply 75% to all inventory taxes paid, not just refundable. Nothing to do with CIFT
Net Operating Loss—modified in 2015	\$373 million— poorly drafted law in 2015
Federal Tax Liability	\$208 million-- constitutional
Motion Picture Tax Credit	\$136 million— not really a corporate credit—just use CIFT to write off—modified in 2015 session
Quality Jobs	\$42 million— must examine closely
Enterprise Zone	\$42 million— eliminate—simply not a productive exemption
All Others	\$126 million

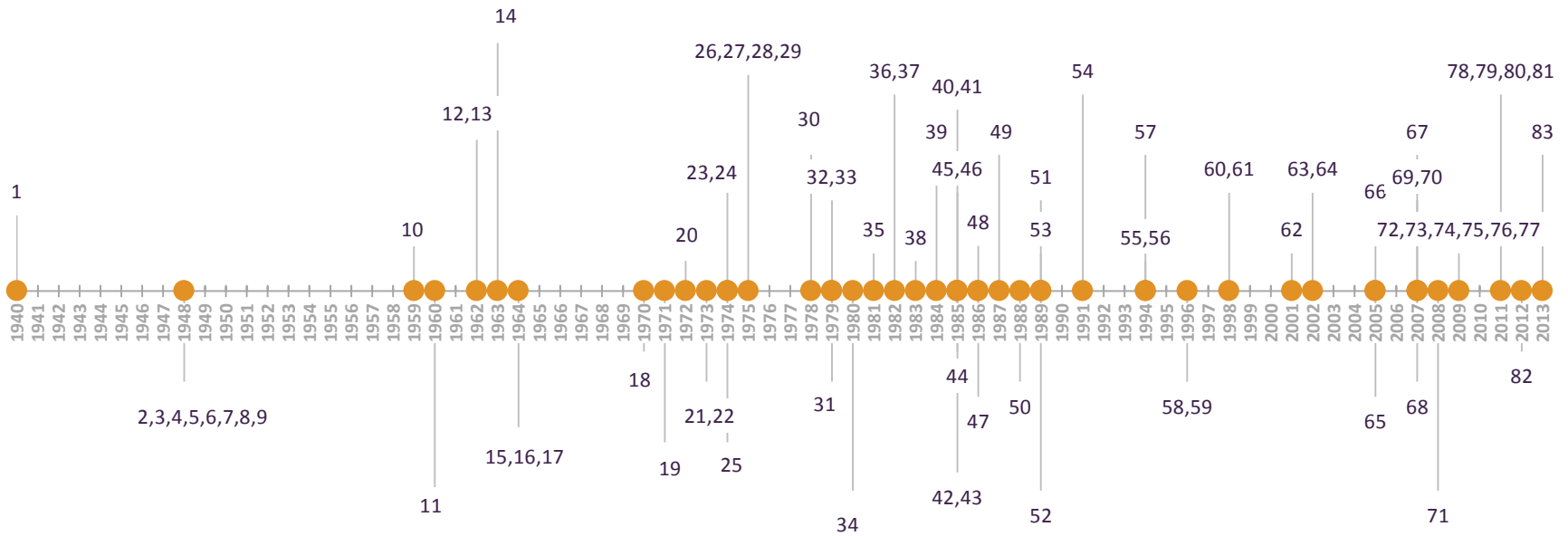
Timeline for PIT Exemptions and Credits



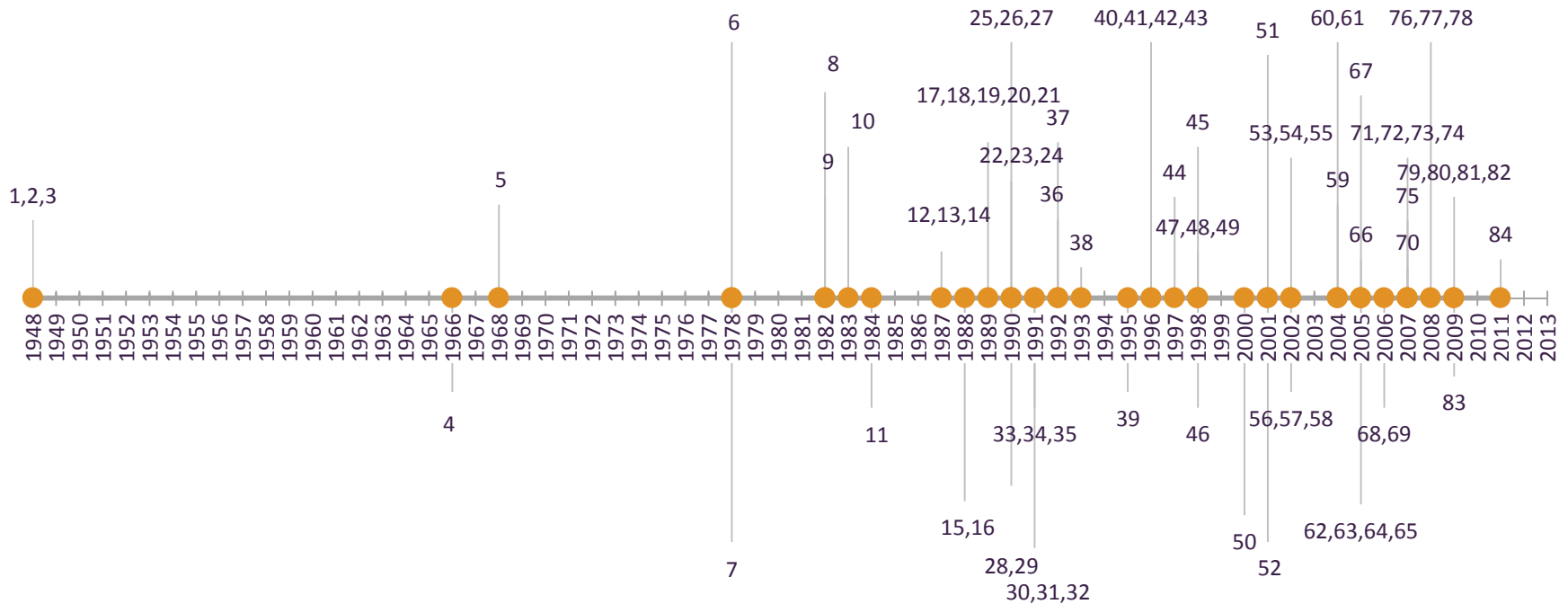
PIT Exemptions and Credits—Est. \$2.180 billion

Exemptions and Credits	Projections for 2016
Federal Tax Liability	\$845 million--constitutional
Excess Itemized Deductions	\$360 million—eliminated in 2002; added back in 2007, not used consistently in other states
Personal Exemption/Standard Deduction	\$258 million—common in other states—on average higher in LA
Retirement Benefits	\$232 million—state, teachers, federal and social security
Taxes Paid to Other States	\$89 million—amended in 2015 session based on 2015 presentation
Earned Income Tax Credit—working and low income	\$50 million—based on federal EITC and 26 states now use to assist workers at lower income levels
Net Capital Gains—higher income	\$46.0 million—applicable to LA residents selling LA business
Others	\$300 million

Timeline for Sales and Use Tax : Exemptions



Timeline for Sales and Use Tax : Exclusions



Sales and Use Tax, \$3.346 billion

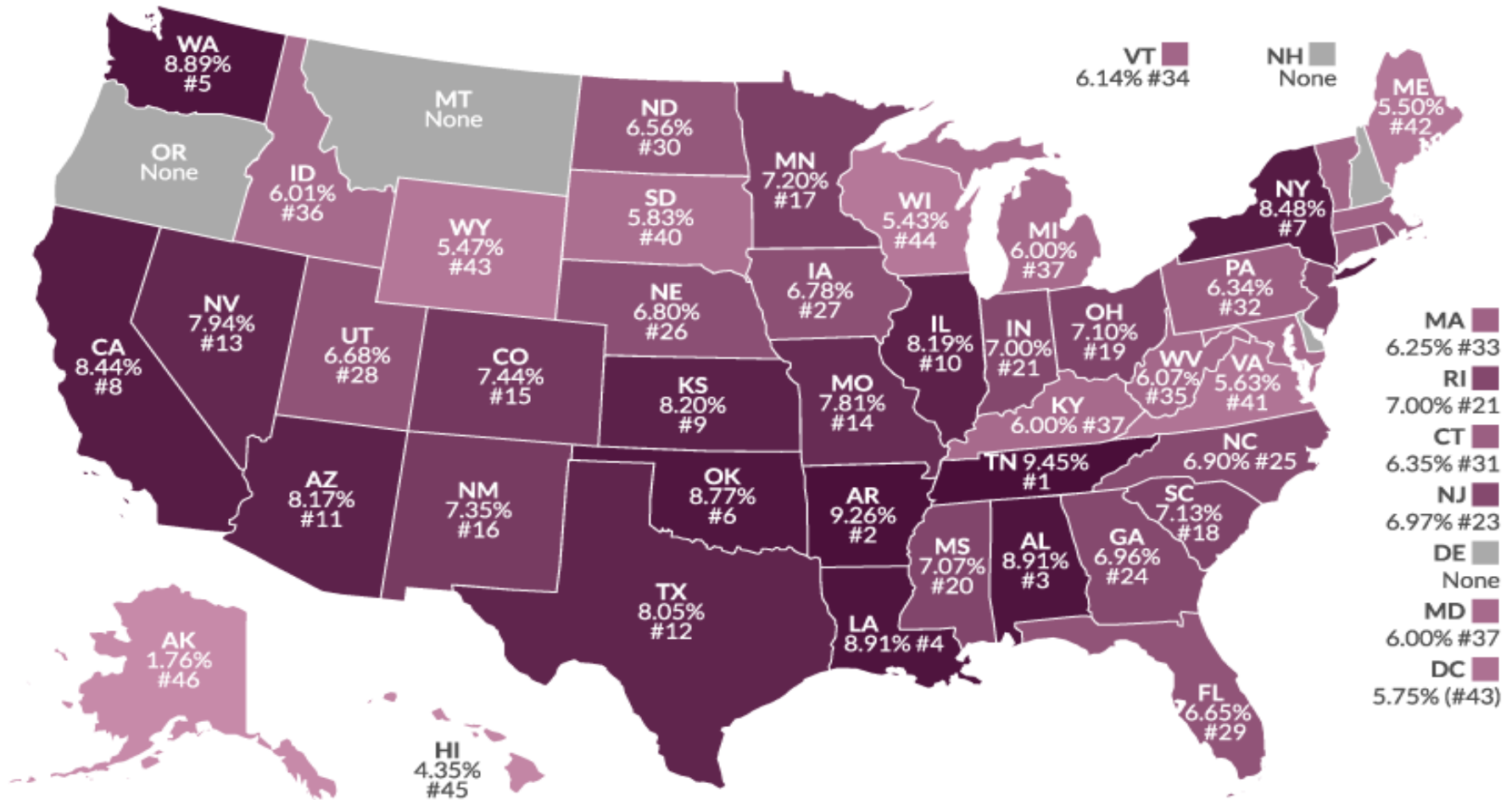
Exemption and Credits	Amount
Food for Home Consumption	\$408 million-- Constitutional
Electrical Power for Nonresidential	\$419 million – changed in 2015— business development, but other states tax
Gasoline and special fuels	\$380 million-- Constitutional
Prescription Drugs	\$295 million-- Constitutional
State/local governments	\$203 million-- Administration
Utilities for Residences	\$205 million-- Constitutional
Machinery & Equipment	\$76 million— economic development
All Others	\$1,360 million— very soft number

INTERSTATE COMPARISONS

How High Are Sales Taxes In Your State?

LA will be #1

Combined State & Average Local Sales Tax Rates in 2015



Note: Three states levy mandatory, statewide, local add-on sales taxes: CA (1%), UT (1.25%), VA (1%). We include these in their state sales tax. The sales taxes in HI, NM, and SD have broad bases that include many services. Due to data limitations, this table does not include sales taxes in local resort areas in MT. Salem County, NJ is not subject to the statewide sales tax rate of 7% and collects a total rate of 3.5%. New Jersey's average local rate is represented as a negative.

Sources: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites.

Combined State & Average Local Sales Tax Rates in 2015



Interstate Income Tax Comparison

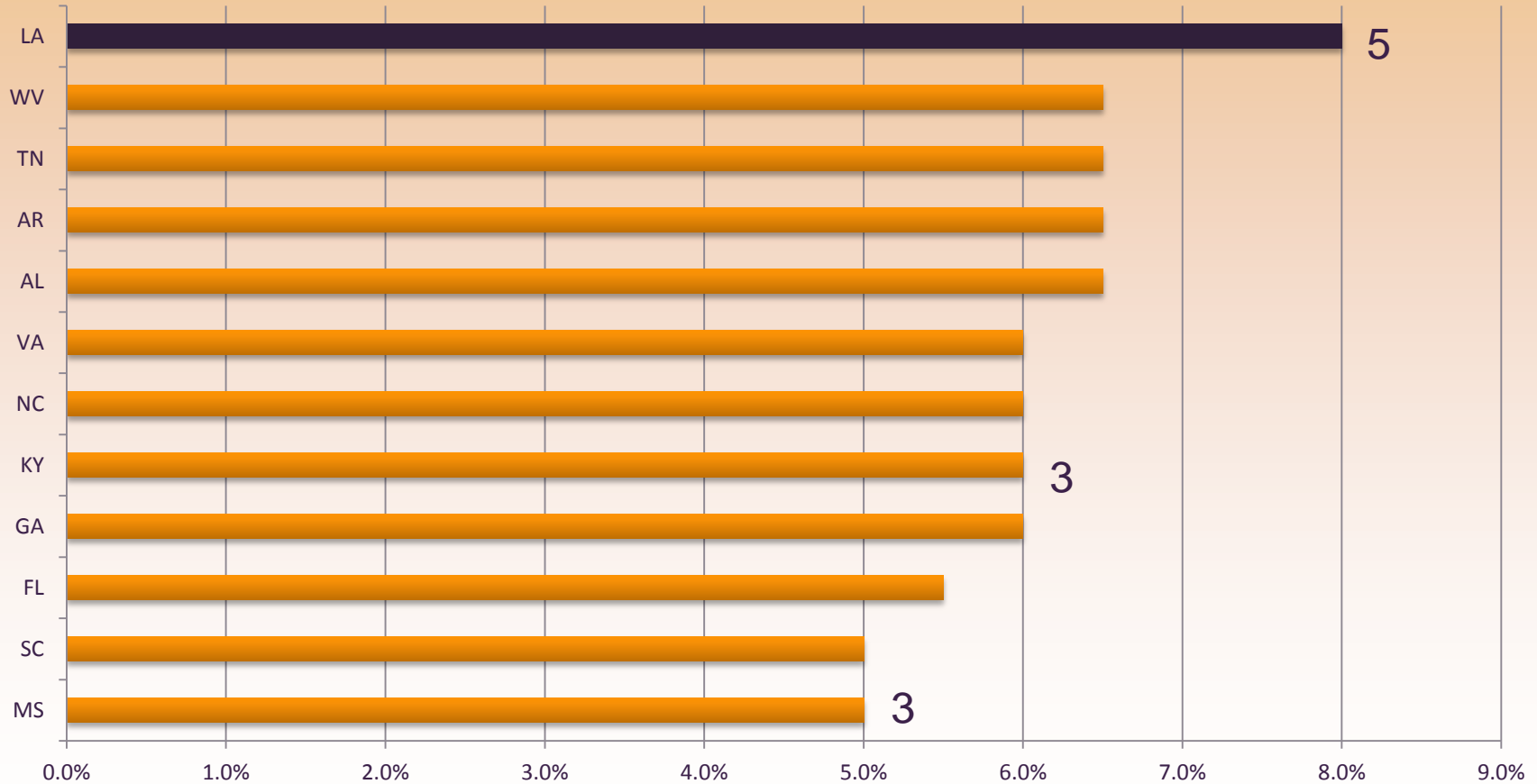
State	State Rates	# of Brackets	SD/PE	Highest Rate Applicable	Federal Deductibility
Alabama	2 to 5%	3	\$11,500	\$6,000	yes
Arkansas	0.9% to 6.9%	6	\$4,400 and credits	\$35,099	No
Florida	None				
Georgia	1 to 6%	6	\$13,400	\$10,000	No
Kentucky	2 to 6%	6	\$2,460, credits	\$75,000	No
Louisiana	2 to 6%	3	\$11,000	\$100,000	Yes
Mississippi	3 to 5%	3	\$19,600	\$10,000	No

Interstate Income Tax Comparison

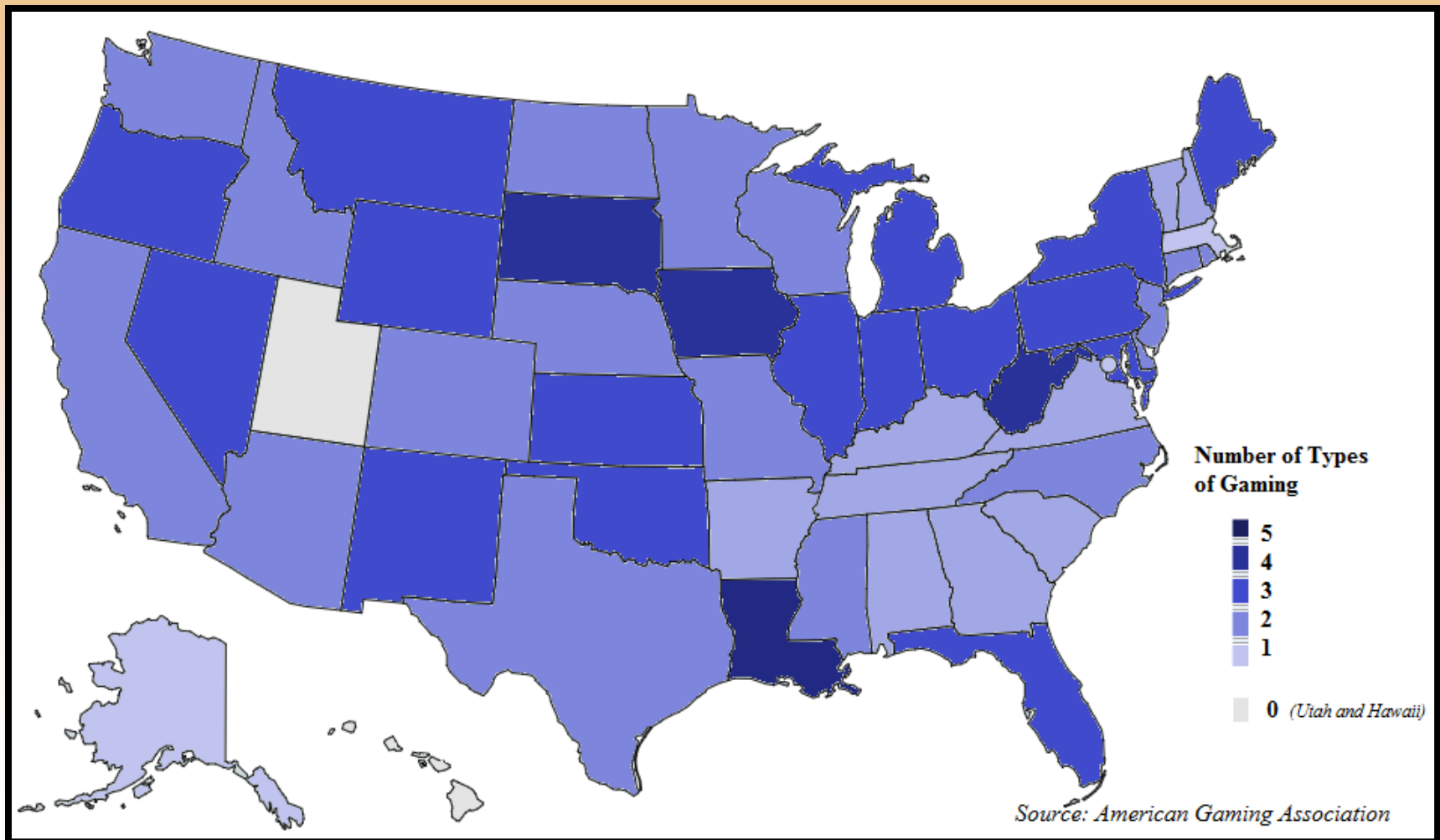
State	State Rates	# of Brackets	SD/PE	Highest Rate Applicable	Federal Deductibility
Louisiana	2 to 6%	3	\$11,000	\$100,000	Yes
North Carolina	5.75%	1	\$0	0	No
South Carolina	3.0 to 7.0%	5	Federal Standard Exemption	\$24,800	No
Tennessee	Applies to interest and dividend income only, 6% rate				
Texas	None				
Virginia	2 to 5.75%	4	\$9,720	\$17,000	No
West Virginia	3 to 6.5%	5	\$8,000	\$60,000	No

Corporate Tax Rate Comparison: Top Marginal Tax Rate

(number of tax brackets)



Gaming Activity



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