



Louisiana Tax Study, 2015

The Central Louisiana Chamber of
Commerce
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Background

Introduction

- **It has been more than 25 years since a major tax study was completed for the state of Louisiana.**
- **The speaker of the House, Chuck Kleckley, and President of the Senate, John Alario asked a group of economists to closely examine Louisiana's tax structure, including the tax exemptions, deductions, credits and rebates.**

Panel of Experts

- **Professor Jim Richardson, Director of Public Administration Institute at Louisiana State University**
- **Steven Sheffrin, Director of the Murphy Institute at Tulane University**
- **James Alm, Professor of Economics at Tulane University**
- **Gregory B. Upton, Jr., Assistant Professor, Center for Energy Studies at Louisiana State University.**
 - **Focused on mineral revenues portion of the report.**

Panel of Experts

- **In addition, out-of-state tax experts provided feedback on the report and on Louisiana's tax structure in general.**
 - **William Fox, Director of the Center for Business & Economic Research and Professor of Economics at University of Tennessee**
 - **George Zodrow, Professor of Economics at Rice University, Editor of the National Tax Journal and International Research Fellow at the Centre for Business Taxation at Oxford University**

Goals

Goals

- 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 predicable and stable
 - Promote competitiveness
 - Be fair
 - Be simple
- Economic Principle: Broad Tax Base and Low Tax Rate

Overview of Current Tax Structure

Foundations of Louisiana Tax Structure in the State Constitution

- **The foundation of the Louisiana tax structure is laid out in the State Constitution that was approved by the citizens of the state in 1974.**
- **State statutes provide further details and specifics of the Louisiana tax structure based on the State's Constitution.**
- **The constitutional limitations highlight the constraints imposed on any State Legislature in dealing with changes to the state and local tax structure since any and all changes in the tax structure must comply with the constitution or approval of the people must be received.**

Louisiana Constitution: Personal Income Tax

- **Income tax rates may be graduated but shall never exceed the rates and brackets as set forth as of January 1, 2003 for joint filers (single filers):**
 - **2% of the first \$25,000 (\$12,500) of taxable income;**
 - **4% of next \$25,000 (\$12,500) of taxable income;**
 - **6% above \$50,000 (\$25,000) of taxable income**
- **Federal income taxes paid shall be allowed as a deductible item in computing state income taxes for the same period.**
- **Political subdivisions shall not levy an income tax.**

Current Individual Income Tax Rates: (Constitutionally Restrained as Above)

2%-4%-6%: \$25,000, \$100,000¹

¹ For joint filed tax returns. Cutoffs for single filers; \$12,500 and \$50,000.

Personal Income Tax

- **Personal income tax based is determined as follows:**
 - **Federal adjusted gross income (not constitutional) less**
 - **Personal exemption and standard deduction (not constitutional)**
 - **Federal tax liability (constitutional)**
 - **Excess itemized deduction (not constitutional)**

Louisiana Constitution: Corporate Income Tax

- **Equal and uniform tax rates can be levied on net incomes and those rates can be graduated.**
- **Federal income taxes paid shall be allowed as deductible.**
- **Political subdivisions cannot levy an income tax.**

Current Corporate Sales Tax Rates: (Not constitutionally fixed)

4%-5%-6%-7%-8%: \$25,000, \$50,000, \$100,000, \$200,000

Current Franchise Tax: (Not constitutionally fixed)

\$1.50 to \$3.00 per \$1,000 of equity and debt (breakpoint-\$300,000)

Louisiana Constitution: General Sales Tax

- **State sales tax does not apply to food for home consumption, natural gas, electricity, water sold directly to the consumer for residential use, and prescription drugs. Sales tax cannot be levied on gasoline and special fuels for use by vehicles.**
- **State sales tax collected by Louisiana Department of Revenue. Local sales tax collected by designated tax collector in each parish.**
- **Political subdivisions can levy and collect sales taxes.¹**
- **Local sales tax cannot exceed 3 percent unless approved by the State Legislature and approved by electors voting in a special election.**

Current Sales Tax Rate (Not Constitutionally Fixed)

State Rate: 4%; Local Rate:≈5%²

¹ Can collect tax upon sale at retail, the use, the lease or rental, the consumption, and storage for use as consumption of tangible personal property and on sale of services as defined by state law.

² Varies across political subdivisions.

Louisiana Constitution: Excise Taxes

- **Political subdivisions shall not levy a tax on motor fuel.**
- **Cigarette tax rate shall not be less than the rate as set forth as of January 1, 2012.¹**

Current Excise Tax Rates (Not Constitutionally Fixed)

Gasoline, \$.20/gallon; Beer, \$.32/gallon; Liquor, \$2.50/gallon; Wine, \$.11/gallon
Cigarettes, \$.36/pack.

¹ Cigarette tax currently at minimum rate of \$.36/pack.

Louisiana Constitution: Severance Tax

- **Can be levied on natural resources severed from the ground either based on quantity or value at the time of severance from the ground.**
- **No tax can be added to land because of the presence of oil and gas reserves on the property.**
- **Creation of Budget Stabilization Fund that specified mineral revenues (including severance tax collections and other mineral revenues) greater than a certain amount would be directed to the Budget Stabilization Fund.**
- **Political subdivisions shall not levy a severance tax.**

Current Severance Tax Rates (Not Constitutionally Fixed)

Oil: 12.5%, Gas≈4%

Louisiana Constitution: Property Tax

- Taxation of property based on assessed value which is a percentage of its fair market value with the assessment ratios being as follows:
 - Land, 10%; Residential Improvements, 10%; Electric Cooperative Property, 15%; Public Service Properties, 25%; Other Property, 15%.
- FMV determined by elected Tax Assessor in each Parish.
- Homestead exemption of \$7,500 of Assessed Value.¹
- Industrial tax exemption for manufacturing facilities allowed.²
- State has authority to tax up to 5.75 mills.
- Local subdivisions have constitutional millage levied for general purposes; other millage approved by voters with specific purpose and length of time.

¹ Applying to homestead not exceeding 160 acres, including mobile homes. Special assessment for person 65 and older. Given certain income characteristics, members of armed forces, and/or disabilities.

² As approved by Louisiana Board of Commerce for up to 5 years with the possibility of renewable for another 5 years.

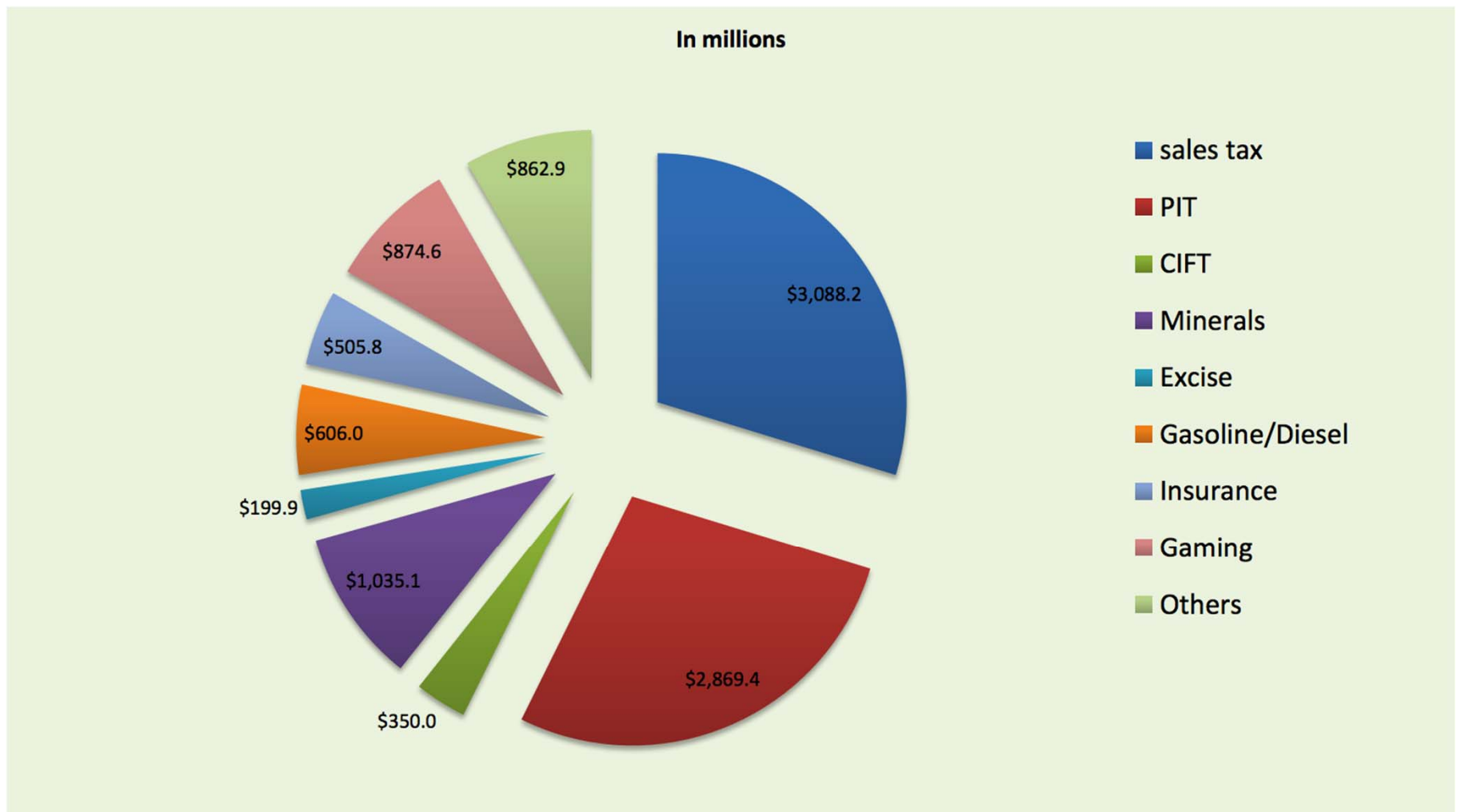
Louisiana Constitution: Other Taxes / Revenue Sources

- **Political subdivisions shall not levy an inheritance tax.**
- **Political subdivisions can levy an occupational license tax.**
- **Louisiana Lottery was created constitutionally in 1990. Other gaming revenues were declared to be constitutional even though the Constitution declared that the state should “define and suppress gaming.”**

History of Tax Revenues and Major Changes to Tax Structure

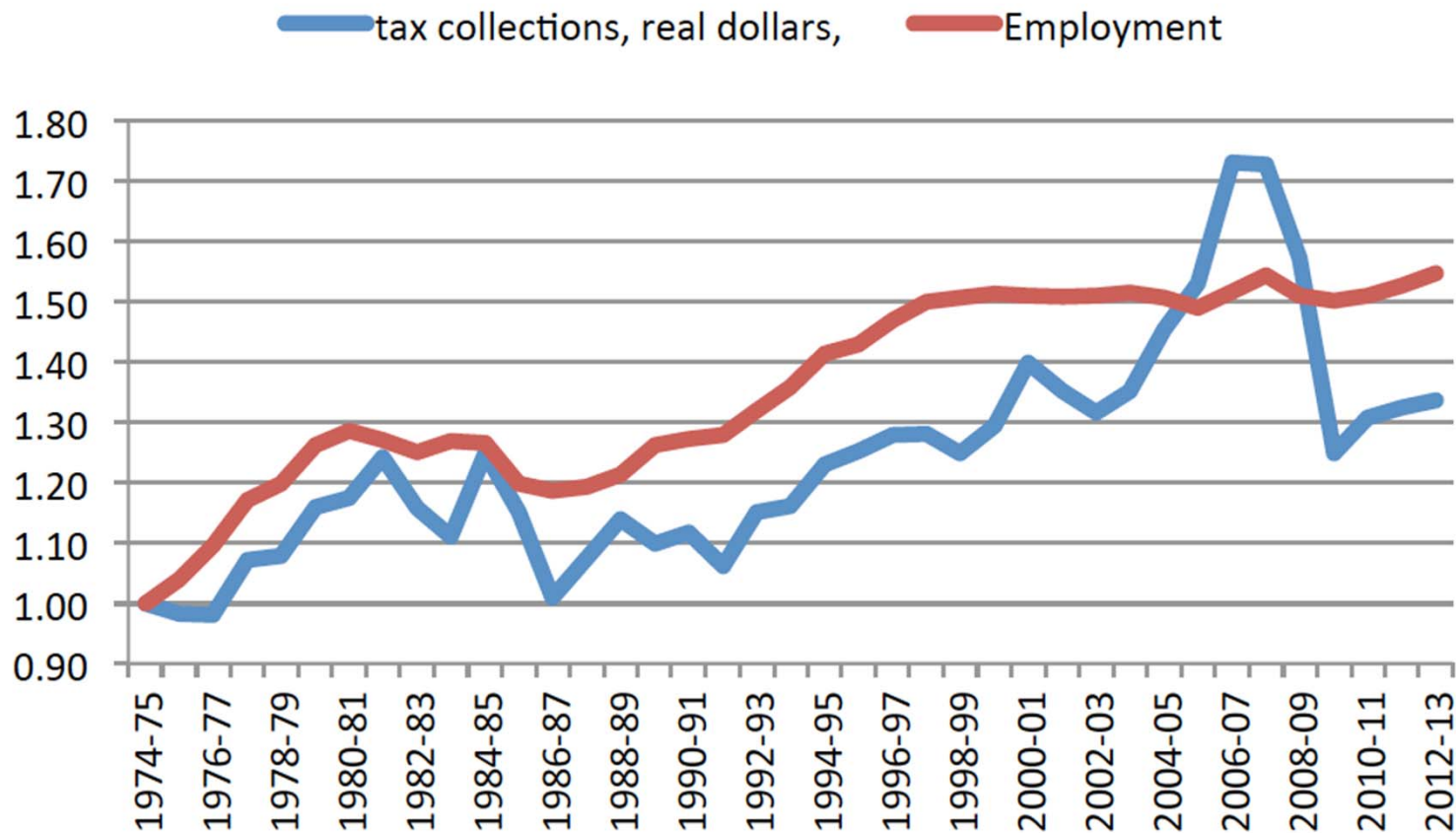
Current Tax Revenues

Louisiana's Current Source of Tax Revenues



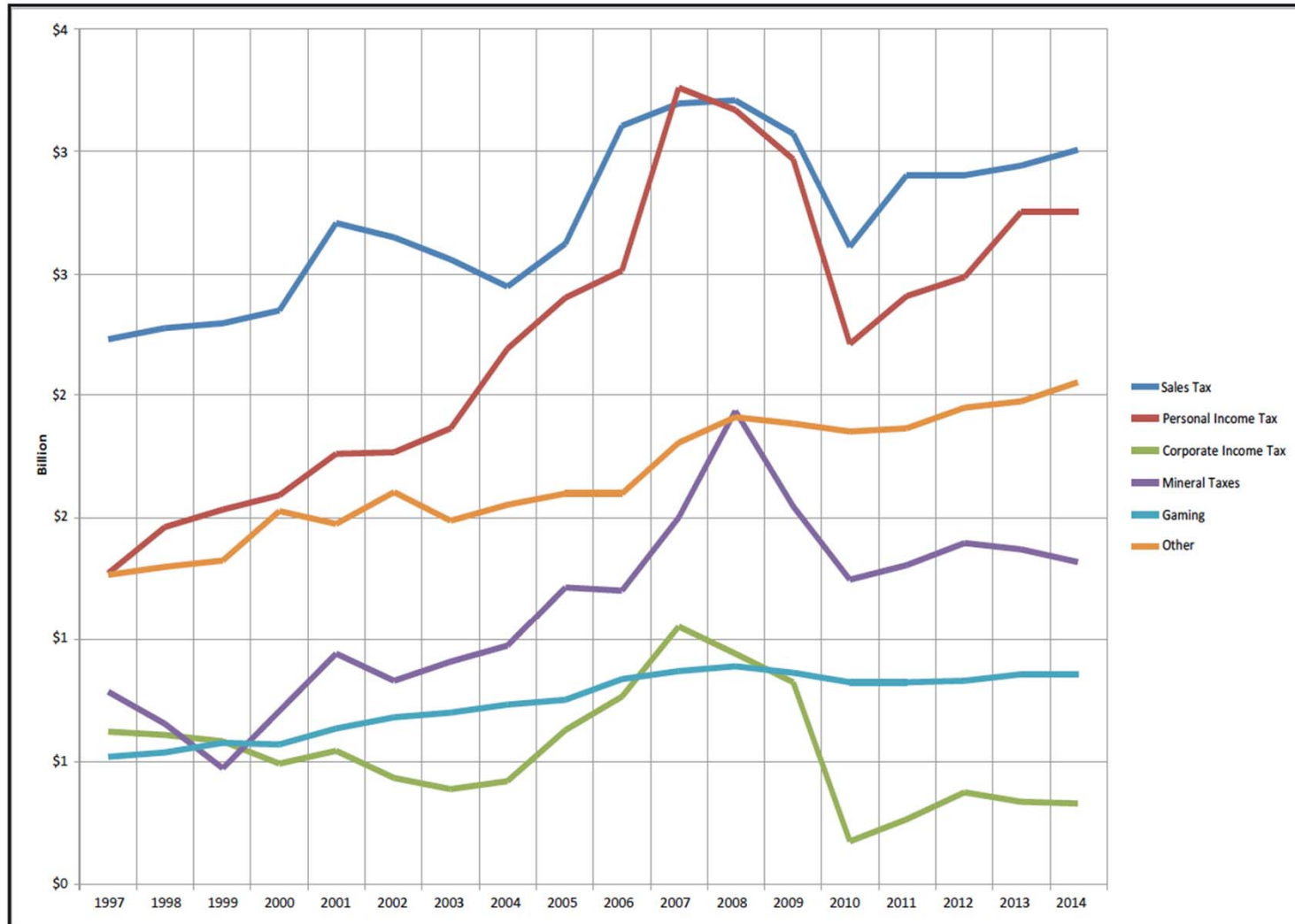
History of Tax Revenues

**Fluctuations in State Tax Collections and State Employment
(1974-75 base)**



History of Tax Revenues

Louisiana Major Tax Sources, 1997 through 2014



History of Income Tax Brackets for Joint Filers (single filer)**Pre 2002**

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

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

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)

History of Taxes in Louisiana

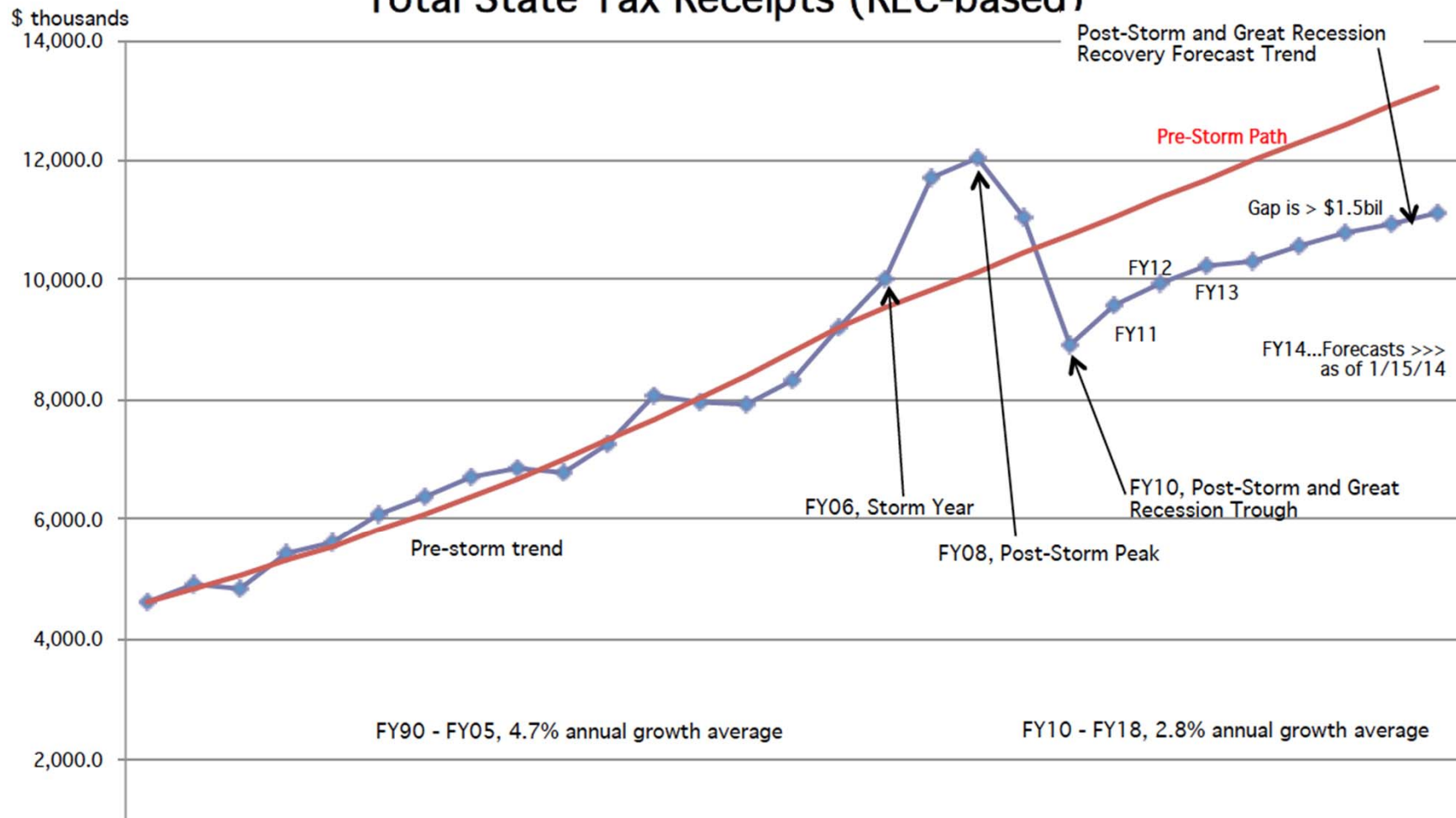
- Also in 2002, the electorate voted to place a constitutional prohibition against sales tax on:
 - Food purchased for consumption at home
 - Natural Gas
 - Electricity
 - Water sold directly to consumers for residential use
 - Prescription Drugs

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

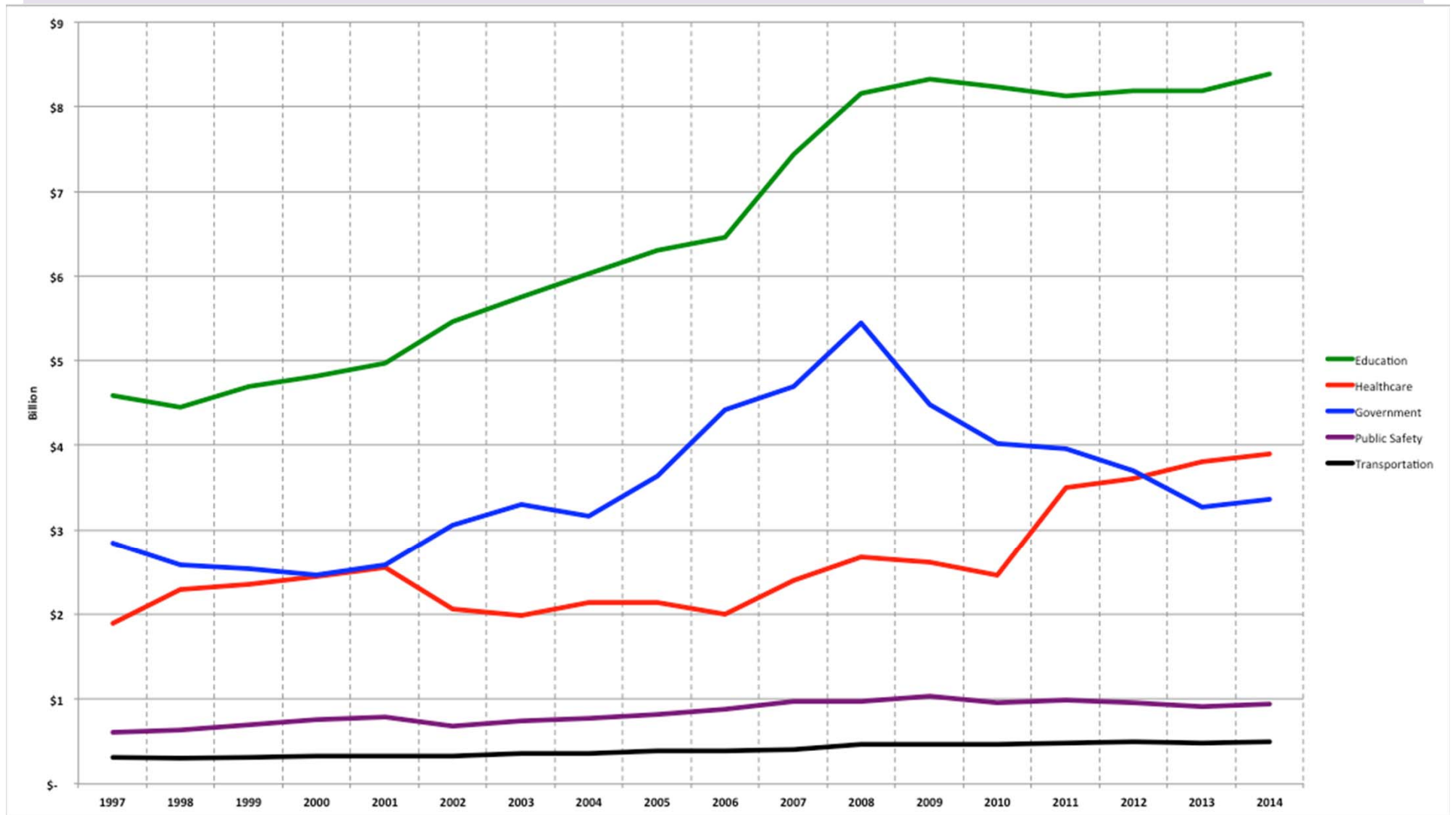
In 2008, the state decreased income taxes back to rates similar to pre-2003 and but made no change to sales taxes.

History of Tax Revenues – 1990 onward

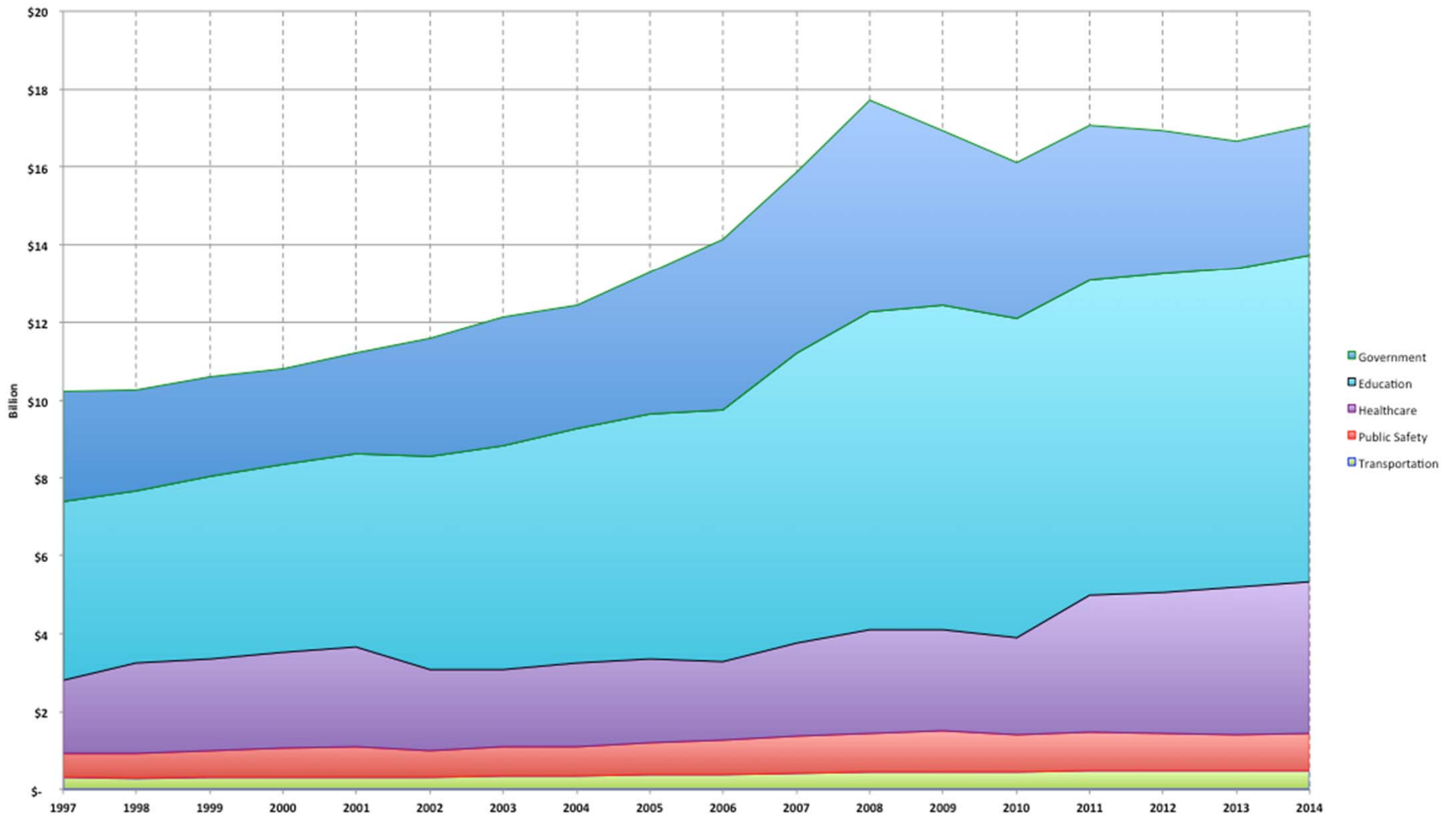
Total State Tax Receipts (REC-based)



History of Spending



History of Spending



Recommendations

Personal Income Tax

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

Personal Income Tax – Comparison with Southern States

States	Lowest Marginal Tax Rate	Applied for first \$	Number of Marginal Tax Rates	Highest Marginal Tax Rate	When Top Rate Becomes Effective	Federal Tax Liability Deduction
AL	2%	\$500	3	5%	\$6,000	yes
AR	1%	\$4,099	6	7%	\$34,000	no
GA	1%	\$750	6	6%	\$10,000	no
KY	2%	\$3,000	6	6%	\$75,000	no
LA	2%	\$25,000	3	6%	\$100,000	yes
LA (Proposed)	1%	\$25,000	3	5%	\$100,000	no
MS	3%	\$5,000	3	5%	\$10,000	no
NC	5.8%	Flat rate	1	5.8%	Flat rate	no
SC	3%	\$2,850	5	7%	\$14,250	no
VA	2%	\$3,000	4	5.75%	\$17,000	no
WV	3%	\$10,000	5	6.5%	\$60,000	no

Corporate Income and Franchise

Proposed Change		Explanation
Rates	<ul style="list-style-type: none"> Change corporate tax rates to single 5% 	<ul style="list-style-type: none"> Current top rate of 8% is highest in the south: <ul style="list-style-type: none"> 5% - MS and SC 5.5% - FL 6% - GA and KY 6.5% - AL, AR, and TN TX has gross margins tax
Tax Base	<ul style="list-style-type: none"> Eliminate federal tax deductibility Enact Addback statute¹ Move to single sales apportionment Move to market sourcing for services Eliminate corporate franchise tax Reduce/eliminate carryback period and maintain carry-forward period 	<ul style="list-style-type: none"> Expanding tax base allows the lowering of rate from 8% to 5% Reduces volatility from federal tax changes Improves Louisiana business tax rating Provides stability for business in defining income Is approximately revenue neutral

¹ Prevents many inner-company expenses to be deducted.

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

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 Change	Explanation
Local-State Administration	<ul style="list-style-type: none"> • Move towards single collector and single audit authority to be done by creation of Local Sales Tax Commission • 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 	<ul style="list-style-type: none"> • 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 • Process must be done deliberately since state and local governments are so dependent on sales tax collections • Colorado and Arizona¹ are the only other two states that have decentralized sales tax collections.

¹ Arizona is currently in the process of transitioning to centralized sales tax collections.

Severance Tax

	Proposed Change	Explanation
Tax Credits	<ul style="list-style-type: none"> Eliminate horizontal drilling and deep water credits 	<ul style="list-style-type: none"> Passed in 1994 when horizontal drilling was “infant industry” Oil and gas prices and costs drive investment decisions
Use of TMS	<ul style="list-style-type: none"> Designate revenues from TMS for “permanent trust fund” 	<ul style="list-style-type: none"> Oil and gas are finite resources, and intergenerational equity suggests we should use tax receipts for long-run projects, not to fund recurring expenses
Rates and Base	<ul style="list-style-type: none"> 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"> Rates and bases were established decades ago, and the industry has changed A study on relative taxation of oil and natural gas in Louisiana versus other states is needed

Severance Taxes

- **The goals of a study on severance taxes would be to:**
 - 1. Find tax rate for oil and gas that would achieve revenue neutrality with removal of horizontal and deep well exemptions.**
 - 2. Establish recommendations for permanent trust fund including:**
 - **How to fund**
 - **Some share of revenues from TMS?**
 - **Appropriate uses**
 - **Use interest for recurring expenses?**
 - **Use principle for long term infrastructure?**

Excise Taxes

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

Exemptions and Credits

	Proposed Change	Explanation
Inventory Ad Valorem Tax Credit	<ul style="list-style-type: none"> Maintain a 75% of value; Over 3 to 5 year replace with other local sources of revenue 	<ul style="list-style-type: none"> Inventories should not be part of tax base, but should be replaced with local revenues
Motion Picture Credit	<ul style="list-style-type: none"> Put cap on amount Legislature is willing to commit to motion picture credit 	<ul style="list-style-type: none"> Credit is not a tax program but an expenditure issue Convert to an annual appropriation
Solar	<ul style="list-style-type: none"> Put cap on credit and treat as expenditure program 	<ul style="list-style-type: none"> Solar is assistance in creating an alternative energy source – how much should state contribute to this new energy source?
All Others, Sales	<ul style="list-style-type: none"> Allow to sunset and be continued after re-examination by Legislature; Amounts to over \$95 million 	<ul style="list-style-type: none"> These range from medical device to agricultural purchases to purchases of breastfeeding items to specialty Mardi Gras items
All Others, PIT and CIFT	<ul style="list-style-type: none"> Allow to sunset and be continued after re-examination by Legislature; Amounts to over \$470 million 	<ul style="list-style-type: none"> Simplifies tax structure Allows for lower rates

Property Taxes

Proposed Change		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	<ul style="list-style-type: none"> Maintain at \$7,500 but do not increase 	<ul style="list-style-type: none"> Rising housing values have broadened property tax base, which keeps millage rates lower
Industrial tax exemption	<ul style="list-style-type: none"> Change from 5 years with 5 years renewable to single 7 year exemption Change from 100% to 80% of property included in industrial tax exemption Include local input in final decision 	<ul style="list-style-type: none"> Property taxes support local services, but state has total control over industrial tax exemption Most states make this a local decision and do not let exemption apply to educational millage Rising market values expand exemption Assist local governments in being more self-sufficient

Conclusions

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.

Questions?

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- **Joint Ways and Means Committee Meeting Presentation**
 - http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2015/mar/0310_15_WM
 - http://murphy.tulane.edu/files/programs/Executive_Summary_Presentation_copy.pdf
 - http://murphy.tulane.edu/files/programs/Final_Presentation_Louisiana_Tax_Study.pdf