

A TAX REFORM PLAN

TO UNLOCK LOUISIANA'S ECONOMIC POTENTIAL

While Louisiana's current fiscal crisis stems from many factors, the state's tax system ranks among its highest. The balkanized system contains numerous targeted tax exemptions, all of which pick winners and losers through the tax code. These provisions encourage special interest lobbying, and add unnecessary complexity to the tax code for those who do not have lobbyists to advocate on their behalf—from middle-class families to struggling small businesses.

In addition, Louisiana residents in the past 12 months have faced two sizable tax increases. One came directly, through a vote of the legislature to raise state sales tax rates by nearly half a penny for the next seven years. The other tax increase came indirectly—because our current system raises **state** taxes on Louisianans every time they receive a **federal** tax cut.

Many provisions of the tax code discourage jobs and economic activity in Louisiana. From taxes on capital and inventory that penalize manufacturing firms with large capital stock, to the numerous targeted tax preferences associated with both the individual and corporate income tax, the structure and complexity of the revenue code serve as a significant disincentive for companies—or individuals—looking to relocate to Louisiana.

With the state economy struggling, and tens of thousands of Louisianans moving out of state, businesses and families need tax reform—to give them an incentive to come to, and remain in, Louisiana. Individuals deserve a flatter, simpler income tax structure, and companies need a pro-growth system that eliminates both destructive taxes and targeted tax breaks favoring specific firms or industries. Tax reform can spark an economic revolution in Louisiana—if lawmakers take the initiative to act, and act boldly.

TAX REFORM FOR INDIVIDUALS

Flatter Tax:

Ideally, all Louisiana residents would benefit from a flat tax system, one which lowers the current 2% bracket to 0% (effectively eliminating it), and reduces the 6% bracket to 4%. This tax structure would remove thousands of Louisiana residents from tax liability, by exempting individual filers' first \$17,000 in income, and families' first \$34,000 in earnings, from taxes. Above those levels, filers would pay a flat 4% rate all on their income—a simpler, fairer, and pro-growth way to reform the revenue code.

If lawmakers want to avoid the marginal revenue loss associated with a move to a pure flat tax, they can still repeal the 6% tax bracket, while increasing the standard deduction (more than doubling it) for individuals in the 2% tax bracket. Although not as pro-growth as a full flat tax, this option would reform and rationalize the tax code in a revenue-neutral manner.

Eliminate Deduction for Federal Taxes Paid:

As one of only three states that allows for a full deduction of federal taxes paid, Louisiana effectively raises state taxes on its citizens every time that Congress allows them to keep more of their own money via a federal tax cut. Policy-makers should eliminate this scenario by repealing the deduction for federal taxes in the state Constitution, and use the savings to fund lower tax rates overall.

Eliminate Excess Itemized Deductions:

Currently, the Louisiana revenue code allows individuals to deduct all their itemized deductions in excess of the standard deduction. Strangely, filers can also use this provision to deduct taxes paid to the state of Louisiana from their Louisiana taxes. Lawmakers should repeal this provision—utilized by a small percentage of filers—and dedicate the savings to providing across-the-board relief through lower tax rates.

Eliminate Other Tax Preferences:

In addition to repealing the deduction for federal taxes paid and excess itemized deductions, lawmakers should find an additional \$200-250 million in tax preferences to eliminate to fund lower rates. Possible targets for lawmakers to examine include refundable tax credits—payments given to individuals with no tax liability, and recognized as government spending provided through the tax code—or targeted tax preferences like the historic preservation credit.

TAX REFORM FOR CORPORATIONS

Repeal the Franchise Tax:

Several states have recently eliminated their corporate franchise taxes, and with good reason. In addition to its administrative complexity, the franchise tax is assessed on capital property along with profits—penalizing capital-intensive, low-margin, and unprofitable new firms. Louisiana should join the ranks of states moving away from franchise taxes by repealing its levy altogether.

Repeal the Inventory Tax—and Inventory Tax Credit:

In recent years, parishes have assessed a tax on business inventory, and the state has provided a refundable tax credit to businesses reimbursing them for this tax. However, the credit has encouraged parishes to increase inventory assessments of businesses to maximize their subsidies from the state, indirectly funneled through businesses via the credit. The Legislature should repeal the refundable credit, and start the process for repealing parishes' authority to assess inventory taxes, which represent an ineffective way for parishes to raise revenue.

Reform Corporate Taxes:

Ideally, given the comparatively small sums it raises and the large amount of exemptions present in the current code, lawmakers should repeal the corporate income tax entirely. However, if they decide not to do so, they could lower rates substantially—from the current 8% rate down to about 3%—by repealing the corporate deduction for federal taxes paid and various targeted incentive programs included in the corporate tax code.

Repeal Jobs “Incentive” Programs:

To help fund the reforms above, lawmakers should repeal the myriad rebates, deductions, and credits (both refundable and non-refundable) present in the corporate tax code. While well-intentioned, these programs operate under the flawed premise that lawmakers or state bureaucrats can best determine what programs will aid the economy and create jobs. Instead, the Legislature should plow the savings from their repeal back into lowering corporate tax rates overall—so all firms will have a greater incentive to create jobs.

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