

A Balanced Approach: Reforming Louisiana's Income Tax

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Balancing the Burden: Reforming Louisiana's Income Tax

- Prior to the 2016 Special Session, the combined state-local tax rate for the bottom 80 percent of Louisiana income earners was twice the rate paid by households in the top 1 percent.* This is largely due to Louisiana's reliance on sales taxes for revenue.
- The temporary 1-cent sales tax increase approved during the Special Session pushed Louisiana's combined local and state sales tax rate to the highest in the nation,* and increased the proportional total tax burden for the bottom 80 percent of earners.
- Ensuring that the state not only raises needed revenue but spreads the burden proportionately to those who can most easily pay requires progressive income tax adjustments.
- Eliminating the federal income tax deduction and reducing the state income-tax rates by one-half percentage point in each existing bracket** (from 2, 4 and 6 percent to 1.5, 3.5 and 5.5 percent) would raise \$389 million per year, with 93 percent of that amount coming from the wealthiest 20 percent of taxpayers.*
- While every Louisiana income tax payer would see lower rates, those at the top would still face a net tax increase because of the elimination of the federal deduction. The bottom 60 percent of taxpayers, meanwhile, would get a reduction in income taxes.*

*Source: Institute on Taxation and Economic Policy, February 2016

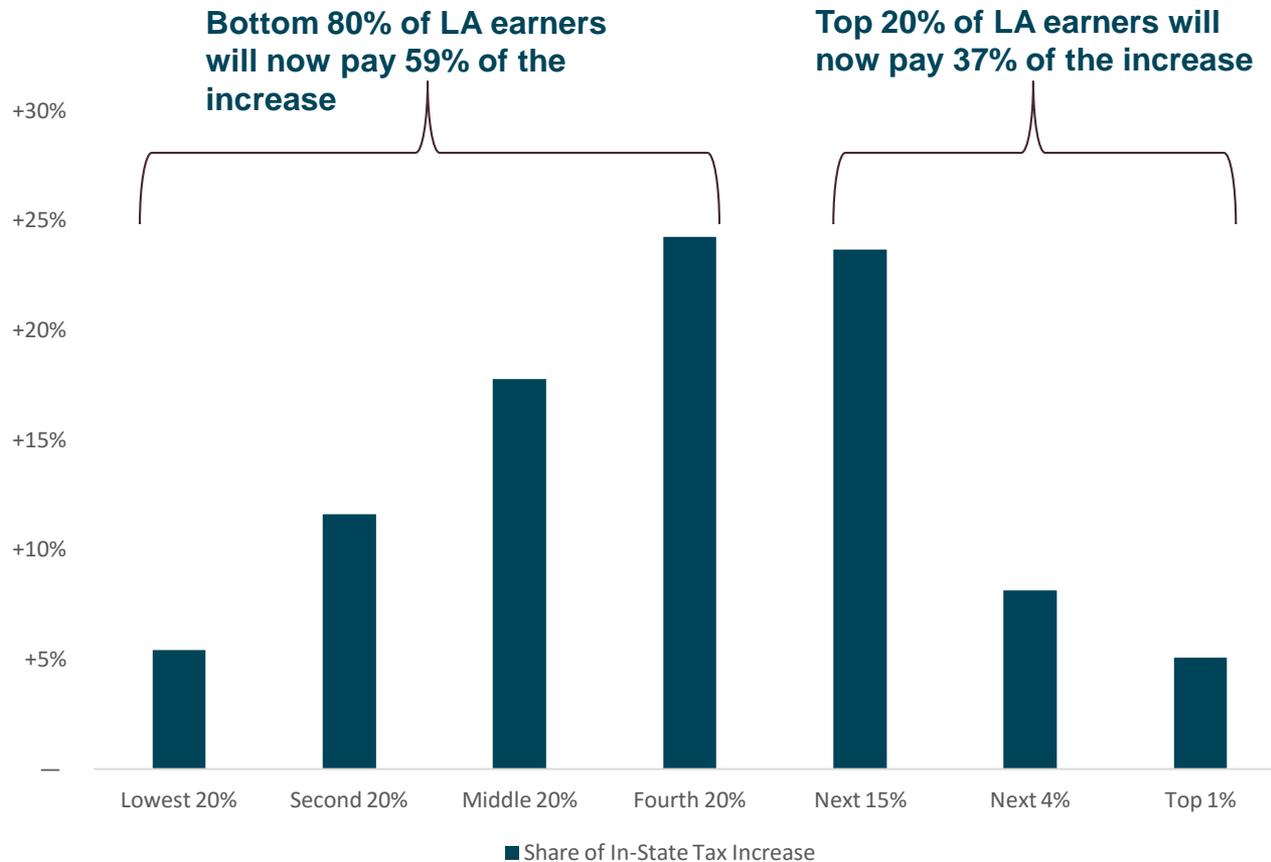
**Existing income tax brackets and rates: Single, married filing separately, or head of household 1) first \$12,500 at 2%, 2) next \$37,500 at 4%, and 3) over \$50,000 at 6%; Married filing jointly or qualified surviving spouse 1) first \$25,000 at 2 percent, 2) next \$75,000 at 4%, and 3) over \$100,000 at 6%.

Low- to moderate-income households in Louisiana pay state and local taxes at higher rates than the wealthiest households



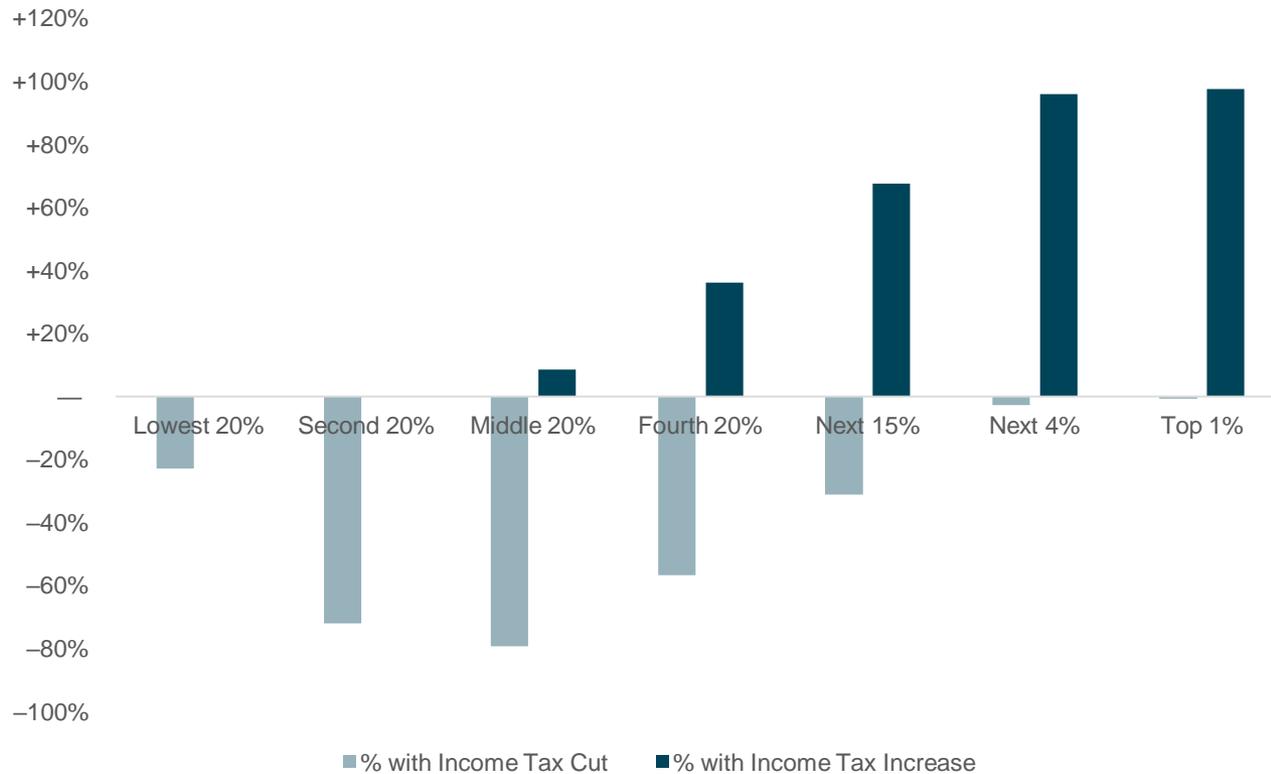
*Source: Institute on Taxation and Economic Policy, April 2016

One cent sales tax increase falls hardest on low-income households



*Source: Institute on Taxation and Economic Policy using state estimated revenue, February 2016

Eliminating the federal deduction and reducing personal income tax rates by one-half percentage point would raise needed revenue while cutting taxes for most Louisianans*



*See appendix for details

* Source: Institute on Taxation and Economic Policy, February 2016

Appendix: Combined Impact of Federal Income Tax Deduction Elimination and Tax Rate Cuts

2015 Incomes	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than \$19,000	\$19,000 – \$37,000	\$37,000 – \$58,000	\$58,000 – \$103,000	\$103,000 – \$209,000	\$209,000 – \$534,000	\$534,000 – or more
Average Income	\$12,000	\$27,000	\$47,000	\$77,000	\$138,000	\$298,000	\$1,389,000

Tax Change as % of Income	-0.1%	-0.3%	-0.2%	-0.0%	+0.2%	+0.5%	+0.9%
Average Tax Change	-16	-69	-75	-2	+280	+1,532	+12,651
% with Income Tax Increase	—	—	+8%	+36%	+68%	+96%	+98%
Avg. Tax Increase for Those w/ Increase	—	—	+118	+218	+474	+1,601	+12,963
Share of Tax Increase	—	—	+1%	+6%	+19%	+24%	+50%
% with Income Tax Cut	+23%	+72%	+79%	+57%	+31%	+3%	+1%
Avg. Tax Cut for Those w/ Cut	-69	-95	-107	-143	-130	-162	-533
Share of Tax Cut	+6%	+24%	+30%	+29%	+11%	+0%	+0%

*Source: Institute on Taxation and Economic Policy, February 2016