

Taxes	Projected 2017	Projected 2019 with current expiration	Estimated 2019 with Tax Changes
Sales Tax, General and Motor Vehicles	\$4,298.10	\$3,176.40	\$3,935.00
Individual Income Tax	\$3,088.30	\$3,222.10	\$3,935.00
Corporate Income and Franchise	\$510.40	\$361.40	\$586.40
Severance/Minerals	\$464.60	\$558.70	\$558.70
Tobacco, Beer, Liquor and Wine	\$381.30	\$382.70	\$382.70
Gasoline/Special Fuels	\$624.10	\$642.50	\$642.5*
Gaming	\$906.60	\$888.50	\$888.50
Excise License	\$858.60	\$656.00	\$656.00
Others	\$900.10	\$916.00	\$916.00
Total	\$12,032.10	\$10,804.30	\$12,500.8**

**Keep All Tax Rates just as low as possible; which means expanding the tax base just as much as possible.**

- (1) the sales tax was increased from 4% to 5% in 2016 since that was the only tax that could increase revenues quickly and the state was at the point of major cuts in state services in February 2016
- (2) the state and locals together have a sales tax rate of 10% in some areas of the state and over 10% in others—a very high rate compared to other states and localities. High rates encourage certain groups to seek special exemptions and exclusions thereby creating an even narrower tax base and redistributing the burden of paying for public services
- (3) higher and higher state sales tax rates inhibit the ability of locals to handle their own fiscal affairs
- (4) the sales tax is regressive in the sense that lower income families will spend a greater portion of income on taxable commodities than higher income families
- (5) the sales tax uses up a great deal of the Department of Revenue's time in terms of administration
- (6) the income tax is modestly progressive and the degree of progressivity can be easily adjusted by making use of various rate structures
- (7) the income tax is quite easy to administer given that the Louisiana income tax is based on the federal computations of adjusted gross income. We are not saying the federal return is easy to handle, but, once that is done, it is fairly simple to complete the Louisiana tax return and quite easy for the Department of Revenue to administer and to make sure that all Louisiana citizens are remitting their individual income taxes
- (8) exemptions, deductions, and credits provide special tax advantages to certain groups of individuals; but will cause either higher income tax rates for everyone or will shift burden of public services to other taxes
- (9) the sales tax and income tax will grow with the economy and with any growth in state obligations

Taxes Utilized at State Level	Projected, FY 2017	% of Taxes, Licenses, and Fees	Focus of Task Force and Legislature/Governor
Sales Tax, General and Motor Vehicles	\$4,298.10	35.70%	Over 60%. Must find most efficient and equitable way of using Sales and Income. Cannot avoid making fundamental choices.
Individual Income Tax	\$3,088.30	27.70%	
Corporate Income and Franchise	\$510.40	4.20%	Changes made. Must allow implementation.
Severance/Minerals	\$464.60	3.90%	Issue not taxation, but appropriate use of these revenues. Might look at separately since basic tax structure was created in 1970s with very different economic environment. Use of mineral revenues focused on in Amendment #5 on November ballot
Tobacco, Beer, Liquor and Wine	\$381.30	3.10%	Increased in 2015 and 2016. Close to maximum that state can impose
Gasoline/Special Fuels	\$624.10	5.20%	Not to balance budget, but to be used for infrastructure. Proper use of gasoline/special fuels and appropriate tax to be determined by Infrastructure Task Force
Gaming	\$906.60	7.50%	Maintain as is due to competitive alternatives
Excise License	\$858.60	7.10%	Increased in 2016; these taxes need to be examined separately
Others	\$900.10	7.50%	Variety of taxes
Total	\$12,032.10	100.00%	Based on June 30, 2016 estimates
Estimated Exemptions, Deductions, and Credits	\$7,707.60	64.1% of total estimated taxes, licenses and fees	Sales, individual income, CIFT, and Severance make up 94% of these exemptions; these exemptions, deductions, and credits affect tax base and tax liabilities and cause shifting of tax burden on different set of citizens/businesses



**Task Force on Infrastructure**



**Separate Study Proposed**



# Raise \$3.935 billion

per penny		Broadest Possible Base	Adjusted Tax Base	Limited Base	Narrow Base
\$805	Pre 2016 State Sales Tax Base, including Motor Vehicles				Include
\$90	Sales Tax Base as Defined by Act 26		Include	Include	
	Recommendations from Sales Tax Streamling Commission	Tax at 3.15% , include MME as part of State Tax Base but provide Rebates for Competitive Purpose; proposed tax on non-			
\$222	Constitutional Exemptions				
	Food for Home Consumption	residential utilities as gross receipts tax but certain	exempt		Exempt
	Prescription Drugs	industrial operations could be exempt for competitive		Exempt from State Sales Taxes	
	Residential Utilities	reasons			
\$18	Manufacturing, Machinery, and Equipment		include but with rebates		
\$65	Non-residential Utilities		exempt		
\$55	Services: modeled after Texas		Include		
		3.15%	4.10%	4.40%	4.90%
\$1,255		\$3,953.25	\$3,968.80	\$3,938	\$3,944.50

The state and local sales tax administration system should be made simpler for business and taxpayers. The Louisiana Tax Study, presented to the Legislature in 2015, called for the creation of a sales tax commission to make recommendations for a uniform sales tax collection process, rates and auditing. The Legislature agreed with the need for a standard sales tax base with the creation of the Louisiana Sales Tax Streamlining and Modernization Commission, whose work is underway. Ultimately, the Task Force would want to connect its findings with the analysis and recommendations of the streamlining commission. The purpose of this proposal is not to impose the state's interests on the backs of the local governments. We know that for improvements in the administration of the sales tax collection to work, there must be cooperation between the state and the local governments.

The ultimate goal and most effective way to achieve tax streamlining is to pass a constitutional amendment allowing a uniform state/local collection and auditing system, the kind used to one extent or most other states in the nation. Alternative systems that would be effective in streamlining collections while maintaining confidence on the local level should be seriously considered, and some new form should be adopted.

The state should take meaningful steps in establishing a more uniform base by bringing exemptions in line on both the state and local levels. Louisiana should standardize for all parishes and municipalities those definitions, exemptions, and exclusions to the sales tax. The sales tax streamlining commission's hard work on this issue deserves real consideration and really is the starting point in the discussion.

This is an absolutely essential reform.

Raise \$3.935 billion

	Current	Broadest Possible Base	Adjusted Tax Base	Limited Base	Narrow Base
<b>Exemptions and Deductions</b>					
Federal Tax Liability Deduction	\$877.20				exemption
Excess Itemized Deductions	\$349.00	not exempt	not exempt	not exempt	Not exempt
SD/PE	\$253.90				
Dependent	\$31.80				
Military Pay	\$6.20	exempt as in tax code now	exempt as in tax code now		
Disability	\$5.80				
\$6,000 Retirement Exclusion	\$24.40	not exempt	not exempt		
LSEERS/TRSL/Others	\$93.80	first \$35,000 nontaxable and then as	first \$35,000 nontaxable and then as		
Federal Retirement	\$32.00	retirement income and other income rises,	retirement income and other income		
Social Security Benefits	\$102.70	nontaxable income declines	rises, nontaxable income declines	exempt	Exemption
Net Capital Appreciation	\$53.90	not exempt	not exempt		
School Tuition	\$22.60				
Fees, Quality Public Education	\$3.00				
START	\$2.30				
Recreation Volunteer	\$0.02	not exempt	not exempt		
Volunteer Firefighter	\$0.06				
I.R.C. Section 280C Expense	\$0.52				
Home Schooling	\$0.24				
<b>Tax Credits</b>					
Net Income Taxes Paid to other States	\$60.30	Maintain	Maintain		
Child Care-based tax credit	\$18.30	maintain	maintain		
Earned Income Tax Credit	\$48.90			Maintain	Maintain
Education (\$25 per student)	\$10.50	repeal	repeal		
School Readiness	\$14.60	Maintain	Maintain		
Others	\$0.00				
Inventory	\$33.20	reduce in line with overall reduction	reduce in line with overall reduction	reduce in line with overall reduction	reduce in line with overall reduction
Natural Gas		reduce in line with overall reduction	reduce in line with overall reduction	reduce in line with overall reduction	reduce in line with overall reduction
Offshore Vessels		Maintain	Maintain	Maintain	Maintain
Telephone		Maintain	Maintain	Maintain	Maintain
Historic Tax Credit	\$37.20	Maintain as is with Dec. 2021 sunset	Maintain as is with Dec. 2021 sunset	Maintain as is with Dec. 2021 sunset	Maintain as is with Dec. 2021 sunset
Motion Picture Credit	\$114.10	change in accordance with ROI	change in accordance with ROI	change in accordance with ROI	change in accordance with ROI
Citizens Property	\$29.20	eliminate	eliminate	eliminate	eliminate
Solar	\$20.00	maintain in accordance with current law	maintain in accordance with current law	maintain in accordance with current law	maintain in accordance with current law
<b>Rates and Brackets</b>					
Current Brackets-Joint Filers	2%/4%/6% \$25,000/\$80,000/\$100000		2%/4%/6% \$25,000/\$80,000/\$100000		
Stelly Brackets--Joint Brackets	2%/4%/6% \$25,000/\$25,000/\$50,000		2%/4%/6% \$25,000/\$25,000/\$50,000	2%/4%/6% \$25,000/\$25,000/\$50,000	2%/4%/6% \$25,000/\$25,000/\$50,000
Proposed Brackets	1.5%/3.0%/4.5% \$25,000/\$80,000/\$100000	1.5%/3.0%/4.5% \$25,000/\$80,000/\$100000	1.5%/3.0%/4.5% \$25,000/\$80,000/\$100000	1.5%/3.0%/4.5% \$25,000/\$80,000/\$100000	
Single Rate	or single rate	or single rate	or single rate	or single rate	

all an improvement over current structure. Task Force leans toward the broadest possible tax base.

State Legislature and Governor Made a number of major improvements in CIFT in last two extraordinary sessions

1. enactment of add-back statute, disallowing for deductions of intangible payments if they are not taxed in other states. Tool to preserve the tax base
2. changes in methods used to apportion the income of corporations that operate within and outside Louisiana. Adoption of single sales factor for all industries except oil and gas which now has a four-factor formula.
3. Market sourcing is where the sales will be allocated to the state in which the market for the services was located.
4. net operating loss carrybacks were eliminated but carry forwards extended to 20 years.
5. proposed elimination of federal tax deduction for corporate income with change in tax schedule from 4%/5%/6%/7%/8% to single rate of 6.5%, in line with other southeastern states

These are significant changes in CIFT, but must be allowed to be implemented

Exemption, Deduction, or Tax Credit	Amount of Exemption, Deduction, or Credit (in millions)	Rationale	TASK FORCE RECOMMENDATIONS
Subchapter S Corporation	\$524.40	Transfer to individual tax	Maintain
Inventory Tax Ad Valorem Credit	\$441.10	Transferring local ad valorem tax to state	Focus on entire tax credit, not just refundables; reassess the % of tax credit to be reimbursed by state. Starting discussion of how to gradually eliminate credit and possibly inventory tax itself.
Net Louisiana Operating Loss	\$358.70	Normal tax provision; modified in 2015	maintain
Federal Income Tax Deduction	\$200.10	On ballot in 2016 to be discontinued for corporate tax returns	eliminate
Motion Picture Credit	\$136.20	Separate credit to be dealt with	focus on ROI
Enterprise Zone	\$41.40	LED economic development	focus on ROI
Louisiana Quality Jobs	\$41.30	LED economic development	focus on ROI
Ad Valorem Tax on Offshore Vessels	\$31.90	Interstate commerce issue	keep given interstate issues
Ad Valorem Tax paid by Certain Telephone Companies	\$24.00	Issue of public utilities	keep given public utility regulations
School Readiness	\$3.00	Connected to improving pre K education	keep with connection to federal support
Donations to School Tuition Organizations	Unable to anticipate	New Rebate program; important to keep oversight since the cost of this rebate may increase. And there is no way of knowing exactly what the cost will be.	important to keep sight of possible cost
Others	\$149.20		
Total	\$1,951.3		

Issue is there are no limits to how much these exemptions/credits can cost the state.

## Ultimate Goal: Provide Local Governments with more ability to handle their own financial affairs

1. Cannot be done overnight
2. must work through sales tax administration and common sales tax base
3. expansion of state sales tax base will provide opportunities for certain local entities that rely on the sales tax
4. reforms in property tax
5. finally, shifting the actual expenditures from state to locals.

## Proposed Changes

1. **Homestead exemption** last changed in 1980 with increase to exemption of \$7,500 based on a 10% assesement of residential property according to Constitution
  - a. Value of Homestead exemption today is less than \$3,000 in 1980 prices
  - b. Signifiante of residential property in paying for local servcies increasing substantially due to the reduction in the real value of Homestead Exemption
  - c. Homestead exemption is not the same barrier to local government financial integrity as it once was
  - d. important task is not to let homestead exemption increase

## 2. Industrial Tax Exemption

- a. Industrial tax exemption, unlike the homestead exemption, has benefitted from inflaton and changing value of investment projects.
- b. ITE is now more valuable than HE
- c. Proposals to change ITE has been submitted by Governor to the Board of Commerce and Industry
- d. Governor's efforts to include locals in decision making locals more involved and changing rules on smaller maintenance investments
- e. Basic reforms should include
  1. reducing ITE to 80% of value
  2. consider reducing renewal from 5 years to 2 to 3 years
  3. maintain and possibly strenghten local involvement since this is local revenues being affected

## 3. Nonprofit Property

- a. Many municipalites have major nonprofits operating the their city
- b. Limit to PILOTs
- c. State needs to carefully distinguish which nonprofits are elgibile to be tax exempt
- d. nonprofits make use of local services