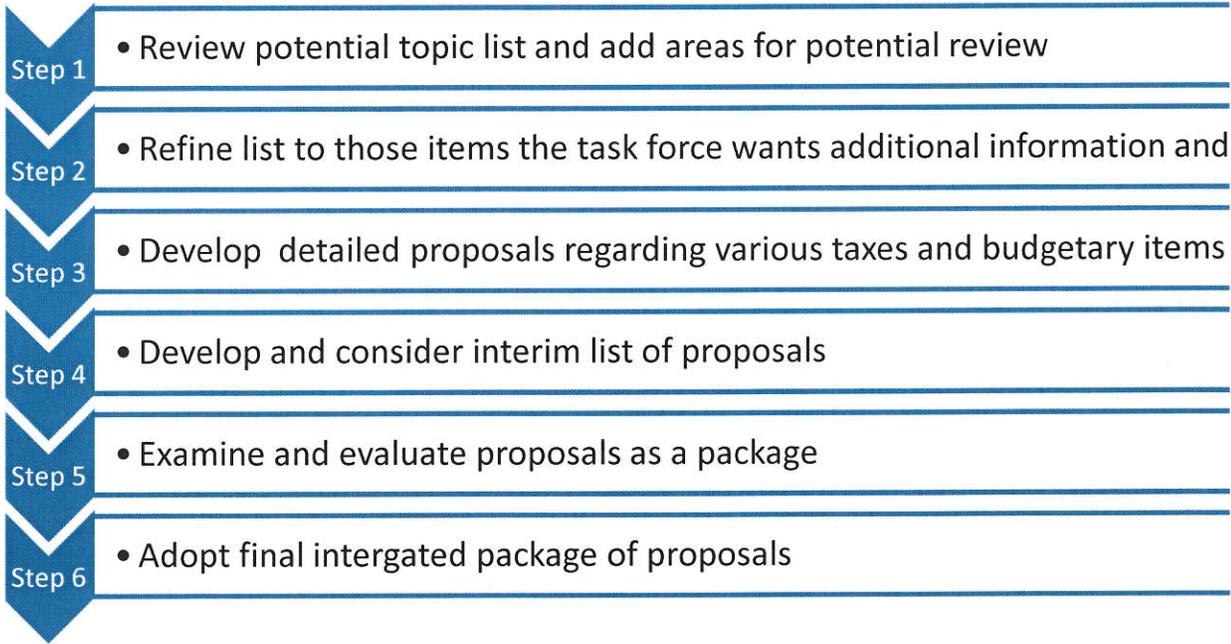


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Suggested Frame Work for Structural Changes in Budget and Tax Policy



Suggested Topic Areas

| Focus Areas | |
|--|---|
| Taxes on Individuals and Businesses | Personal Income Tax |
| | Sales Tax |
| Business Taxes | Corporate Income Tax |
| | Corporate Franchise Tax |
| | Alternative Business Taxes, especially Texas and Tennessee |
| Affecting individuals and businesses | Exemptions, Deductions, and Tax Credits |
| Excise Taxes on Specific Products or Services | Fuel Taxes/Infrastructure, Other Excise Taxes (Tobacco, Liquor, Beer), and Gaming |
| Tax on Oil and Gas in Louisiana and Use of these taxes | Severance and Mineral and Appropriate Use of Mineral Revenues |
| | Local Support by State Government |

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Local Governments and State Tax and Spending Policies

Property Tax, Major Source of Local Revenue

Local Sales Tax

Dedications

State Budget Issues with References to Spending and Long-term State Obligations

Retirement

Fiscal Stabilization

Other Expenditure Topics

Final Recommendations

Recommendations and Suggestions for Long-term Structural Change in Budget and Tax Policy

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Personal Income Tax

| Topics | Notes | Proposals |
|-------------------------------|--|-----------|
| Change Rate | | |
| Change Brackets | | |
| Deductions | | |
| -Excess Itemized Deductions | \$350 million | |
| -Federal Income Tax Deduction | \$900 million | |
| -Private School Tuition | \$22 million | |
| -Educational expense | \$3 million deduction for expenses; \$10 million for \$25 credit | |
| -Public Retirement Income | \$90 million State retirement plus \$93 million Social Security | |
| -Net Capital Gains | \$52 million | |
| Credits | | |
| Eliminate Personal Income Tax | Some have argued that this would help grow the economy. The key is finding replacement revenue and/or offsetting cuts | |
| Earned Income Tax Credit | \$48 million, the EITC in Louisiana is linked to the federal EITC. The EITC is thought by many to be an effective poverty fighting tool as it does not penalize work like other benefit programs | |

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Sales Tax

| Topics | Notes | Proposals |
|---------------------------------------|---|-----------|
| Sales tax rate | | |
| Uniform Sales Tax Base | Recent sales tax changes have made a poor system worse. Moving to a unified tax base, with very limited exceptions, would greatly improve this situation | |
| Centralized Collections | This would help to ensure eventual compatibility with proposed federal legislation. The system should reduce unnecessary administrative burdens on business, eliminate the regular need for multiple audits, and maintain tax collection practices at least on par with those run by the most efficient states. | |
| Exemptions & Exclusions | | |
| Sunset Exemptions & Exclusions | This would require some type of periodic review process | |
| Base Expansion/Services | An expansion of the sales tax base to services could be pursued in the interest of lowering sales tax rates and broadening the base, provided the tax would not apply to business purchases that would create the damaging effect of tax pyramiding. However administration could have challenges. | |
| Intangible Personal Property | This has become an issue with the proliferation of purchases of purely electronic goods such as digital downloads of movies and songs | |
| Compliance with potential federal law | What will it take to get Louisiana ready if some version of the Marketplace Fairness Act passes? | |
| Internet sales | What can be done to increase compliance with sales tax laws on internet purchases? | |

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Corporate Income Tax

| Topics | Notes | Proposals |
|-------------------------------|---|-----------|
| Brackets | | |
| Change rate | The current rate lowers Louisiana's competitive rankings for business recruitment and helps create the perception that Louisiana is a high-tax state. | |
| Deductions | | |
| -Excess Itemized Deductions | | |
| -Federal Income Tax Deduction | | |
| Eliminate Corp Income Tax | It is possible that eliminating the Corp Income tax along with all related credits might actually save the state money. | |
| Net Operating Loss | This has been altered in recent sessions to remove "carry back" losses | |
| Combined Reporting/Add Backs | What ways should Louisiana use to ensure multi-state corporations do not "game" our tax code | |

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Franchise Tax

| Topics | Notes | Proposals |
|-------------------------------|--|-----------|
| Rates | Currently \$1.50 for each \$1,000 or major fraction thereof up to \$300,000 of capital employed in Louisiana, and \$3 for each \$1,000 or major fraction thereof in excess of \$300,000 of capital employed in Louisiana. | |
| Eliminate Corp Franchise Tax | The franchise tax is a complicated administrative burden on business and is often difficult to calculate, which leads to time-consuming regulatory problems and litigation. The current tax is a deterrent to capital investments and a disincentive to companies considering a headquarters operation in Louisiana. | |
| Cap Franchise Tax | Everyone would pay something, but the maximum amount would be limited | |
| Allow Choice between Franchis | Business could chose which of the taxes they would pay. | |
| Definition | Various definitions could be changed to improve the implementation of the tax. | |
| Scope of Businesses Included | Additional businesses are now subject the franchise tax since the Special Session. Should this be either rolled back or expanded further? | |

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Other Revenue

| Topics | Notes | Proposals |
|------------------------------|--|-----------|
| Gross Receipts Tax and other | A tax that is levied on a business' total revenue rather than its net profits (like the corporate income tax). See Tennessee | |
| Margins Tax | The Texas Tax. A receipts tax that only applies to a business's "margins." This is defined as by the least of three options: 1) total revenue multiplied by 70 percent, 2) total revenue minus the cost of wages paid, or 3) total revenue minus the cost of goods sold. | |
| Value Added Tax (VAT) | Tax on a product whenever value is added at a stage of production and at final sale. Common in Europe | |
| Fee Structure | The state collects a number of fees and fines (\$2 billion). Are there additional opportunities? Are some fees too high? | |

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Business Credits, Rebates and Reporting

| Topics | Notes | Proposals |
|---|---|------------------|
| Ad Valorem Credits (Inventory, Offshore, Telecom) | \$536 million; A complicated issue involving business, state and local government | |
| Film Tax Credit | \$212 million | |
| Economic Development Credits | | |
| -Quality Jobs | \$59 million | |

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Fuel Taxes/Infrastructure

| Topics | Notes | Proposals |
|-----------------------------|---|-----------|
| Fuel Excise Tax | Nature of a per gallon tax makes it vulnerable to inflation | |
| Sales tax exemption | Fuel is exempt from sales tax (\$359 million) | |
| Project funding | | |
| Tolling | | |
| Public Private Partnerships | | |
| Other Excise Taxes | Tobacco, liquor and beer--changes have been made | |
| Gaming Taxes and Revenues | riverboats, video poker, land-base casino | |

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Mineral and Severance

| Topics | Notes | Proposals |
|--|---|-----------|
| Horizontal Drilling Credit | Moved to a sliding scale in 2015 | |
| Processing Tax | | |
| Non-renewal nature of revenue | | |
| Fix Budget Stabilization Fund (BSF) | In some circumstances the BSF cannot be used during a revenue shortfall | |
| Lower Excess Mineral Revenue Threshold | The \$950 million threshold may not be hit for a decade | |
| Require Funds in Excess of BSF cap to be Non-Recurring | Currently if the BSF is full, money flows back into the general fund | |
| Create Mineral/Revenue Stabilization Fund | Legislation is being considered currently | |

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| Local Support | | |
|-------------------------------|--|------------------|
| Topics | Notes | Proposals |
| Revenue Sharing Fund | \$90 million a year to mitigate the loss of revenue from the Homestead Exemption | |
| Tax and Fee sharing | For example, portions of the Insurance Premium Tax are dedicated to municipal retirement systems | |
| State Support for Local Roads | Transportation Trust Fund dollars over the required amount have been sent to local government | |
| Hospitals | Support for rural and community hospitals | |
| Community Colleges | This often supported by local government in other states | |
| K-12 Schools | What is the correct proportion between state and local support? | |
| Supplemental Pay | Should state government be paying for local salaries? | |
| Local Housing of Prisoners | Do we have the right mix of solutions for housing prisoners? | |

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Property Tax

| Topics | Notes | Proposals |
|---|---|------------------|
| Property Tax as Local Support | note amount generated for local governments; dif | |
| State Property Tax | Generates ~\$200 million. Stable revenue source but could have administrative and legal issues | |
| Property Tax on certain assessments (Inventory, Telecomm, Offshore vessels) | Related offsetting credits cost \$536 million; A complicated issue involving business, state and local government | |
| Homestead Exemption | Exemption on first \$7,500 of assessed value | |
| Local Input on Industrial Tax Exemption (ITE) Decisions | The ITE is used to entice businesses but at the cost of potentially reducing local revenue | |
| Industrial Tax Exemption Level | Currently it is a 100% exemption | |
| Industrial Tax Exemption Period | ITC is for 5 years with an additional 5 year extension (which is almost automatic) | |
| "Payment In Lieu of Tax" system (PILOT/PILT) | Allows for compensation to local government for lost tax revenue | |

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Dedications

| Topics | Notes | Proposals |
|--|----------------------------------|-----------|
| Statutory Dedications | About \$4 billion in dedications | |
| Constitutional Dedications | | |
| Sunset Dedications | | |
| Require higher threshold to create dedication | | |
| Transfer Interest on Dedications to the General Fund | | |
| Place a higher threshold to enact new dedications. | | |
| Charge Dedications Overhead | | |

Retirement

| Topics | Notes | Proposals |
|---|--|-----------|
| Adopt new system for new hires | Might cost more in the short term | |
| Fix COLA "Funding" Methodology | Experience account system hides true cost of COLAs | |
| Adopt more conservative assumptions | Systems assume a 7.75% to 8.2% return on investments | |
| Pay for admin expenses on an annual basis | Currently a bill in the session | |
| Retirement Debt | Methods of amortization, not stretching out payments | |

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Fiscal Stabilization

| Topics | Notes | Proposals |
|--|---|-----------|
| Fix Budget Stabilization Fund (BSF) | In some circumstances the BSF cannot be used during a revenue shortfall | |
| Lower Excess Mineral Revenue Threshold | The \$950 million threshold may not be hit for a decade | |
| Require Funds in Excess of BSF cap to be Non-Recurring | Currently if the BSF is full, money flows back into the general fund | |
| Create Mineral/Revenue Stabilization Fund | Legislation is being considered currently | |
| Mid-Year Authority | Governor may cut 3% of the general fund budget, and JLCB can cut up to 5% of most funds | |
| Expenditure Limit | | |

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Other Expenditure Topics

| Topics | Notes | Proposals |
|----------------------------|---|-----------|
| Higher Education Structure | Is the mix and number of colleges optimal? Is there a better governance structure? | |
| TOPS | | |
| K-12 and MFP | The MFP formula has been basically the same for two decades. It is currently at \$3.6 billion | |
| Healthcare expenditure | | |
| Partner Hospitals | | |
| Sentencing Reform | | |

Final Recommendations

| Topics | Notes | Proposals |
|-------------------------------------|--|-----------|
| Sales and PIT | taxes affecting most citizens and representing about 60% of Total Budget | |
| Business Taxes | keep corporate; change corporate; examine other business tax models | |
| Exemptions, Deductions, and Credits | do we want to expand tax bases and lower rates or do these exemptions, etc have certain priorities | |
| Excise Taxes | Gasoline Tax; other excise taxes; gaming taxes | |
| Severance and Mineral Revenues | severance tax policy; appropriate use of mineral revenues | |
| Local Governments | State Support | |
| Property Tax Issues | tax exemptions; state tax | |
| spending Issues | dedications, retirement, and other major state responsibilities | |
| Others | Based on discussion and evolution of ideas over course of Task Force Meetings | |