

Presentation

to

Select Committee on Tax Structures
Louisiana Senate and
Louisiana House of Representatives

by

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Principles of A Good Tax Policy

- 1. Tax structure that grows in line with general economy**
- 2. Tax structure that meets revenue demands of state**
- 3. Tax structure that is competitive with other states**
- 4. Business taxes cannot be passed to persons in other states; businesses act as tax collector so tax is passed to someone within the state it could be consumers in the state, to workers, to landowners, to suppliers, and to some small business owners.**
- 5. Keep tax system as simple as possible.**
- 6. Keep tax system as fair as possible-vertically (meaning higher income persons pay a little more than low income persons) and horizontally (meaning that persons making about the same income will pay about the same amount of taxes).**

**Recommendations of
Louisiana Law Institute's Tax Study Committee**

1. Support substantial revenue neutral reduction in state general sales tax, offsetting the state sales tax revenues foregone with adjustments in the income tax, considering the phase-in of these adjustments over a three to five year period.

Sales Tax Options: (1) reduce rate from 4 to 2.5%
(2) remove tax on food and utilities and lower rate on all other goods to 3 to 3.25%

Income Tax Options: (1) eliminate federal income tax deductibility
(2) eliminate excess itemized deduction
(3) change rates and brackets: joint (single)
first \$10,000 (\$5,000) at 3%
next \$40,000 (\$20,000) at 4%
over \$50,000 (\$25,000) at 4.5%.
2. Support broadening the local property tax base by:
 - (a) lowering the homestead exemption from \$7,500 to \$2,500, phased-in over a ten year period with the automatic constitutional millage roll-back.
 - (b) Limiting ten-year industrial tax exemption to 5 years
 - (c) Considering feasibility of utilizing state funds, such as Property Tax Relief Fund, to provide refundable state income tax credit to affected homeowners.
3. Tax out of state partners or limit liability companies in same fashion as the State does in-state partners and limited liability companies.
4. The Louisiana Law Institute Tax Study Committee recommends that the legislature enact an income tax statute taxing the Louisiana income of partnerships and limited liability companies that are classified as partnerships in the same manner in which the state taxes the Louisiana income of S corporations.
5. The Tax Study Committee supports the repeal of the Louisiana Gift Tax in light of the previously enacted repeal over a phase out period of the Louisiana Inheritance Tax.
6. Impose a value added tax of 0.25% on all businesses in the state as an offset to other business taxes.

Louisiana Value Tax Form

- + Federal Taxable Income (corporate, partnership, or single proprietorship)**
- + Compensation (wages, salaries, commissions, and all benefits)**
- + Net Interest Paid (interest paid less interest received)**
- + Net Royalty Payments (royalties paid less royalties received)**
- + Depreciation Expense**
- + Equals Value Added Tax Base**
- + Multiply by Appropriate Apportionment Factor**
- + Less Net Loss Carryovers from previous years**
- + Equals Adjusted Value Added Tax Base**

The November Constitutional Amendments

Purpose #1: To moderate the reliance on state sales tax and increase reliance on state income tax

Purpose #2: To enhance the State's investment in educational improvements, an additional \$206 million

Details of the November Amendments

Increase in State Income Tax: \$642 million

Existing State Income Tax

**Adjusted Gross Income
less Standard Deduction/Personal Exemption
less Excess Itemized Deductions
less Federal Tax Liability**

equals Louisiana Taxable Income

2% on first \$20,000 (\$10,000) of taxable income-joint (single)

4% on next \$80,000 (\$40,000) of taxable income-joint (single)

6% above \$100,000 (\$50,000) of taxable income-joint (single)

Proposed State Income Tax

**Adjusted Gross Income
less Standard Deduction/Personal Exemption**

equals Louisiana Taxable Income

2% on first \$5,000 (\$2,500) of taxable income-joint (single)

3% on next \$5,000 (\$2,500) of taxable income-joint (single)

4% on next \$40,000 (\$20,000) of taxable income-joint (single)

5% above \$50,000 (\$25,000) of taxable income-joint (single)

Reduction in State 4% Sales Taxes on Food and Utilities -- \$436 million

Aggregate Impact of Tax Proposals

Increase of Income Tax	\$642 million
Reduction in Sales Tax on Food and Utilities	(\$436 million)
Reduction in Federal Income Taxes paid by Louisiana citizens due to ability to deduct State Income Taxes on Federal Return	(\$110 million)
Net Impact on Louisiana Taxpayers	\$96 million

What Does it Mean to Individual Taxpayers?

Taxpayers making less than \$25,000 per year will actually get a modest tax reduction of about \$33 per year or almost \$3 per month.

Taxpayers making between \$25,000 to \$60,000 per year will pay about \$50 per year more in taxes or just over \$4 per month.

Taxpayers making from \$60,000 to \$100,000 per year will pay an extra \$380 per year or about \$32 per month.

Taxpayers making from \$100,000 to \$200,000 per year will pay an extra \$730 per year or just over \$60 per month.

A tax table is attached to provide more detail information on individual taxpayers.

Tax Table of Income Tax/Sales Tax Switch

Adjusted Gross Income	Proposed Income Tax Increase Per year	Savings from lower Federal Income Taxes	Reduction in Sales Tax on Food and Utilities	Net Impact of Tax Changes Per year	Net Impact per Month	Percentage impact on individual taxpayer
\$0 to \$5,000	0	0	\$19	(\$19)	(\$1.60)	(0.75%)
\$5,000 to \$10,000	(\$1)	0	\$57	(\$58)	(\$4.83)	(0.77%)
\$10,000 to \$15,000	\$41	0	\$90	(\$49)	(\$4.08)	(0.39%)
\$15,000 to \$20,000	\$91	0	\$126	(\$35)	(\$2.92)	(0.20%)
\$20,000 to \$25,000	\$154	\$2	\$158	(\$5)	(\$0.40)	(0.02%)
\$25,000 to \$30,000	\$229	\$7	\$187	\$35	\$2.92	0.13%
\$30,000 to \$40,000	\$362	\$20	\$237	\$106	\$8.83	0.30%
\$40,000 to \$60,000	\$519	\$44	\$336	\$140	\$11.66	0.28%
\$60,000 to \$80,000	\$841	\$94	\$462	\$285	\$23.75	0.41%
\$80,000 to \$100,000	\$1,246	\$239	\$533	\$474	\$39.50	0.53%
\$100,000 to \$120,000	\$1,656	\$398	\$629	\$630	\$52.50	0.57%
\$120,000 to \$140,000	\$1,955	\$532	\$728	\$695	\$57.92	0.53%
\$140,000 to \$160,000	\$2,129	\$579	\$750	\$800	\$66.66	0.53%
\$160,000 to \$180,000	\$2,300	\$749	\$816	\$735	\$61.25	0.43%
\$180,000 to \$200,000	\$2,477	\$825	\$851	\$801	\$66.75	0.42%

**Sales and Personal Income Taxes Paid
Relative to Adjusted Gross Income
By Income Category**

Adjusted Gross Income	Current Sales and Income Taxes Paid Relative to Adjusted Gross Income	Proposed Sales and Income Taxes Paid Relative to Adjusted Gross Income
\$0 to \$5,000	4.11%	3.36%
\$5,000 to \$10,000	4.29%	3.52%
\$10,000 to \$15,000	4.73%	4.34%
\$15,000 to \$20,000	5.09%	4.89%
\$20,000 to \$25,000	5.15%	5.14%
\$25,000 to \$30,000	5.31%	5.46%
\$30,000 to \$40,000	5.38%	5.74%
\$40,000 to \$60,000	5.49%	5.86%
\$60,000 to \$80,000	5.53%	6.07%
\$80,000 to \$100,000	5.50%	6.30%
\$100,000 to \$120,000	5.30%	6.23%
\$120,000 to \$140,000	5.20%	6.15%
\$140,000 to \$160,000	5.17%	6.09%
\$160,000 to \$180,000	5.14%	6.02%
\$180,000 to \$200,000	5.16%	6.02%