

# CR 11 Presentation

Prepared for  
CR 6 Task Force

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# Establishing Budgetary Framework

**Fundamental Purpose of Tax System:** Provide sufficient revenues to fund public services—both state and local

**Step:** Decide how much state wants to spend on public services and on local assistance

**Second Step:** Decide how to pay for these public services with the tax structure having these qualities:

Short and long-term stability

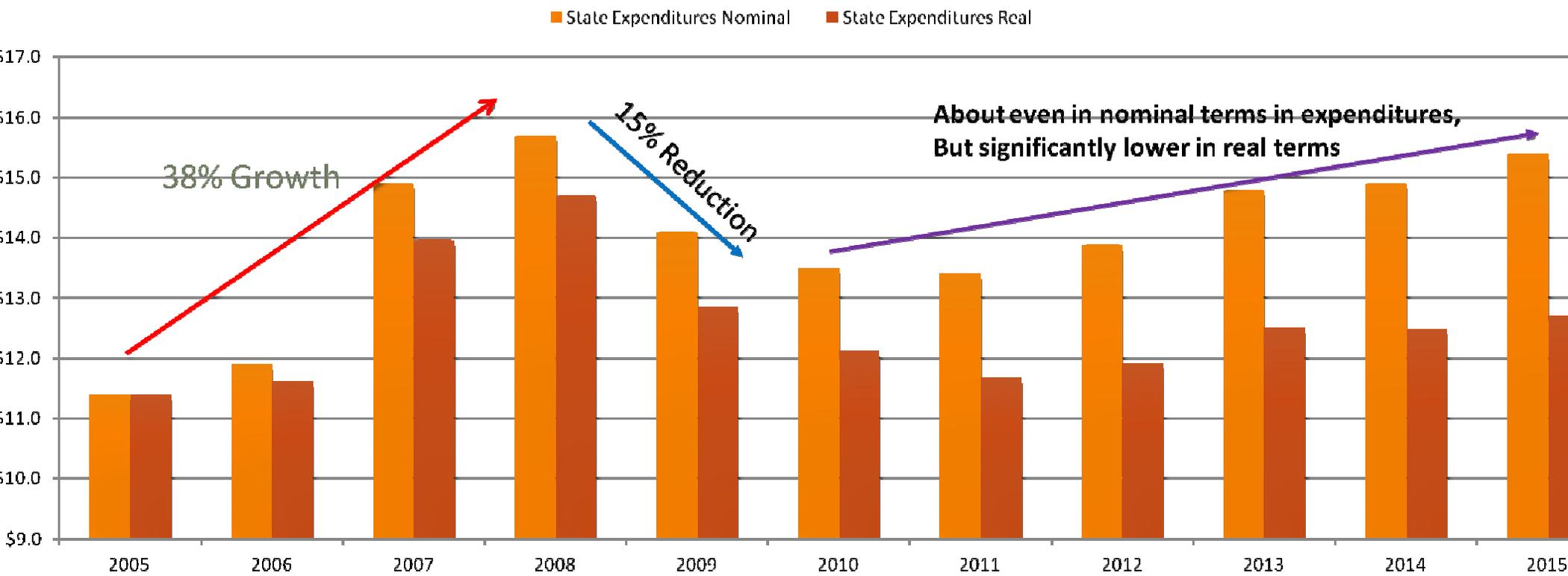
Fairness across and among various income groups

Economic competitiveness—ideally, a competitive tax environment will mean that special programs to attract business to the state can be minimized

Simplicity—reducing exemptions, deductions, and credits that expand the length and number of the tax forms, that add to taxpayer compliance burdens, and that create distortions in taxpayer behaviors

***Stability, fairness, competitiveness, and simplicity are achieved with a broad tax base and the lowest rates possible.***

# Fiscal Ups and Downs Since 2005



**National Recession**  
**Drop in Energy Prices**  
**Reduction in State Taxes**

# Spending

In 2010 **THE COMMISSION ON STREAMLINING GOVERNMENT** issued report with 238 specific recommendations for reducing size of state government

- Eliminating certain state services
- Consolidating state activities
- Outsourcing state services (via contracts)
- Recommendations available for over six years

In 2014 Alvarez & Marsal—prepared report called **Government Efficiencies: Management Support**

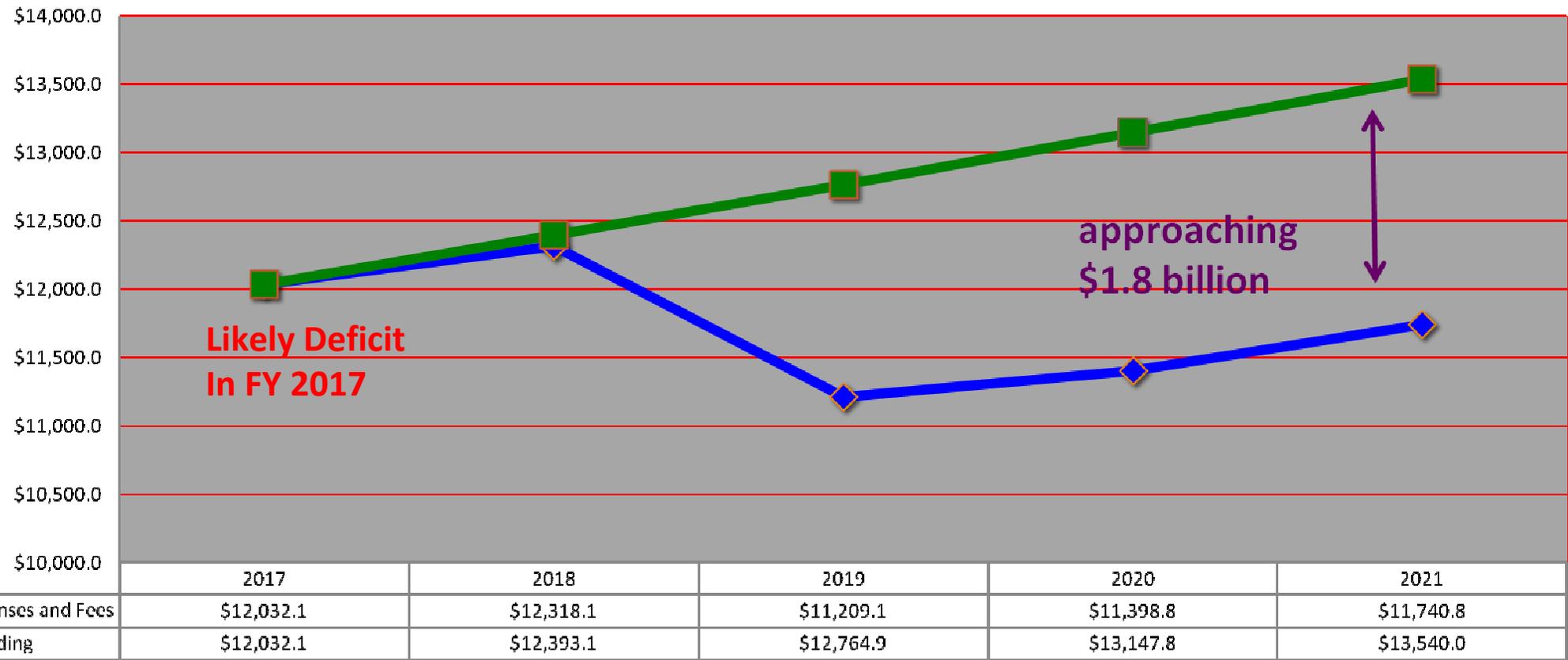
Current Focus

- **Eliminating contracts:** contracts can be providing certain services that cannot be curtailed and this might be most cost effective method of providing service
- **Undoing Dedications:** undoing dedications will cut expenditures only if we decide those expenditures are unnecessary.
- **HCR 25:** Agencies have been mandated to submit to Commissioner of Administration, the Legislature, and the Task Force on Structural Changes in Budget and Tax Policy initiatives the agencies will undertake to insure more efficient operations in Fiscal 2017 and beyond. **These are now being reviewed by Task Force.**
- **EXAMINATION OF MAJOR PROGRAMS:** Must be examined program by program.
- **State and Local:** important to allow local governments the necessary autonomy to handle their financial affairs.

Another Type of Spending: **Tax Exemptions, Deductions and Credits**

- **In 2008** state sales and use tax, individual income tax, corporate income and franchise, and severance tax amounted to \$7.821 billion while exemptions, deductions and credits with these taxes amounted to \$3.946 billion
- **By 2015** these taxes had declined by 12% while the value of the exemptions, deductions, and credits had risen by 85%
- This is a type of spending over which the state does not control the amount.

# Where We Are Today



# What are Our Choices?

	Projected 2017	Projected 2019 with current expiration	What Can We Do?
Tax, General and Motor es	\$4,298.1	\$3,176.4	We have to focus on t taxes; 65% of all rever grow with economy; v have to pay for public services
Individual Income Tax	\$3,088.3	\$3,222.1	
Corporate Income and Franchise	\$510.4	\$361.4	
Gas/Minerals	\$464.6	\$558.7	No Changes are Realis
Tobacco, Beer, Liquor and Wine	\$381.3	\$382.7	Raised as Much as Can
Gasoline/Special Fuels	\$624.1	\$642.5	Saving for Infrastructure
Amusement	\$906.6	\$888.5	Not much room to rais
Professional License	\$858.6	\$656.0	Insurance Tax must be examined as group
Other	\$900.1	\$916.0	
	\$12,032.1	\$10,804.3	Choose exactly how m we want to spend

# Sales Tax

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## Task Force is focusing on

- Expanding sales tax base
  - Keep items added to sales tax base in 2016
  - Add services
  - Business utilities
  - State tax on MME, but with rebate
- Getting rate back to 4% or lower
- Uniform tax administration for state and local collections
- Uniform tax base for state and locals
- **Expansion of sales tax base would apply to locals**

## Tax Foundation

- Expand sales tax base
- Include services in sales tax base
- Uniform tax base for state and locals
- Uniform tax administration

**Preliminary Recommendations of Task Force in Line with Suggestions by Tax Foundation**

# Individual Income Tax

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## Task Force focusing on

- Collect about \$2.8 billion; tax exemptions, deductions and credits amount to almost \$2 billion
- Lowering income tax rates from 2%/4%/6%
  - 1.5% on first \$25,000
  - 3.0% for \$25,000 to \$50,000
  - 4.5% above \$50,000
- Expanding income tax base
  - Eliminating federal income tax deduction
  - Eliminating partially excise itemized deductions
  - Consider all other exemptions and tax credits

## Tax Foundation

- Eliminate deduction for federal income taxes paid
- Versions of elimination of excise itemized deductions
- Get rates down to either
  - 1%/3%/4.5%
  - Or flat rate—Tax Foundation likes flat rates
- Examine other deductions and credits

**Basic preliminary recommendations of Task Force highly consistent with recommendations of Tax Found**



# Corporate Income and Franchise Tax

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## Task Force focuses on CIFT

- Reduce top marginal rate from 8.0% to at least 6.5%
- Eliminate federal tax liability as a deduction
- These two items are on ballot in November and were defeated.
- Maintain carryforward but do not re-impose carrybacks in averaging income over time
- Legislature made several major changes in establishing the definition of corporate income especially for global companies—now must give Department of Revenue to write the regulations and to implement these policies
- Task Force recommended Corporate Franchise Tax to be reviewed by Department of Revenue and Tax Institute for revision and elimination

## Tax Foundation

- Remove federal taxes paid as a deduction
- Move rate to 5% from 8%
- Rethink the carrybacks and have net losses from previous years to be averaged
- No recommendations on franchise tax

**Agreement on November Vote on Constitutional Amendment; disagreement on carrybacks**

# Property Tax Provisions

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# What is taxed in Louisiana?

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**Taxable Property will be valued at its fair market value**

**Assessed value will be a percentage of its fair market value**

- 10% for land and improvements for residents
- 15% for business properties
- 25% for public utilities

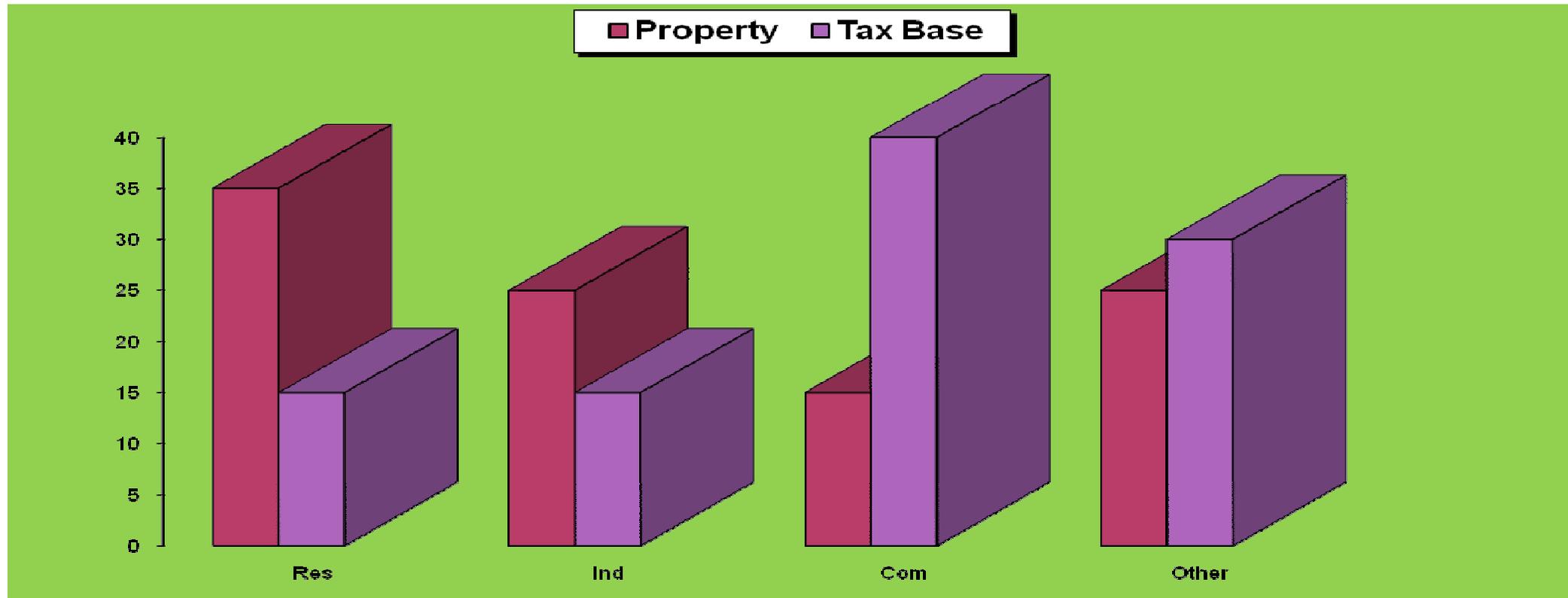
**Taxes will be levied on assessed value**

**The Assessed Ratios affect the tax burden and the distribution of this burden.**

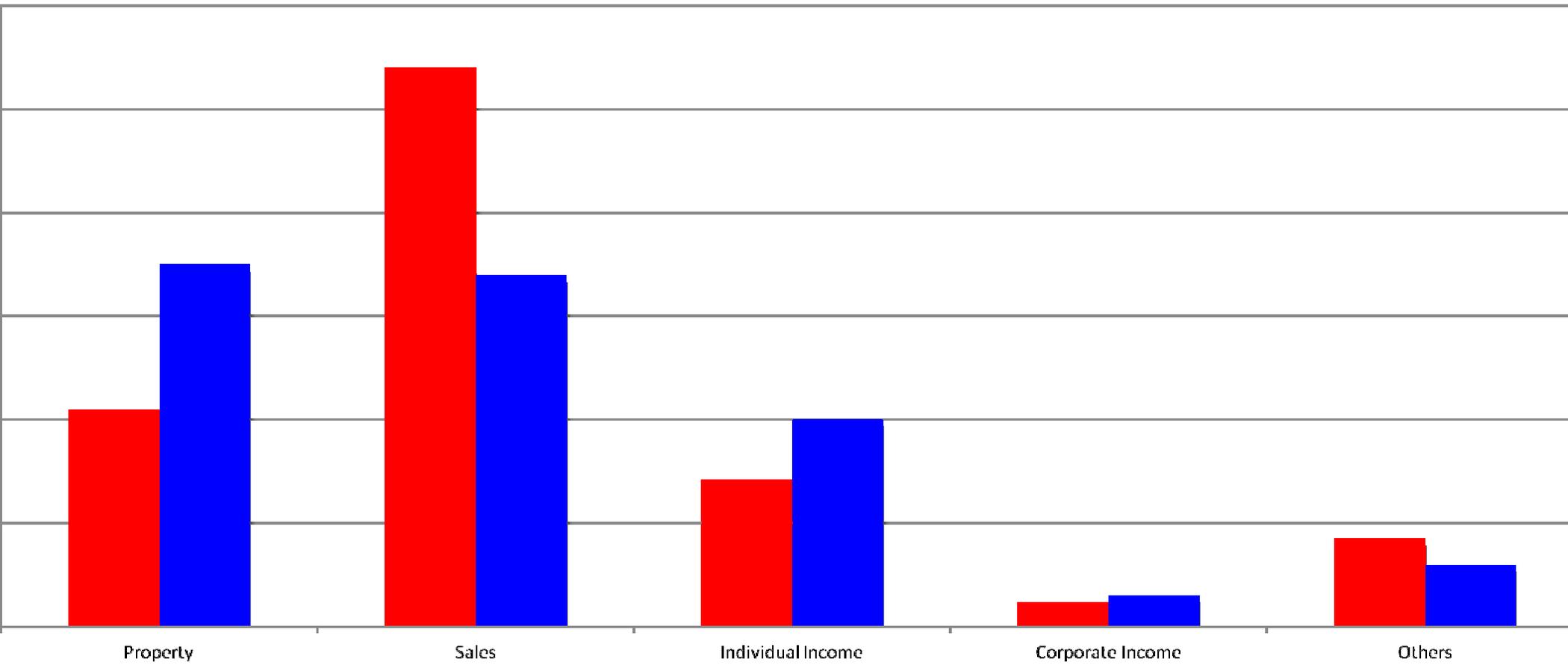


# Estimated Property Tax Base Relative to Total Property Base

Homestead exemption and industrial tax exemption

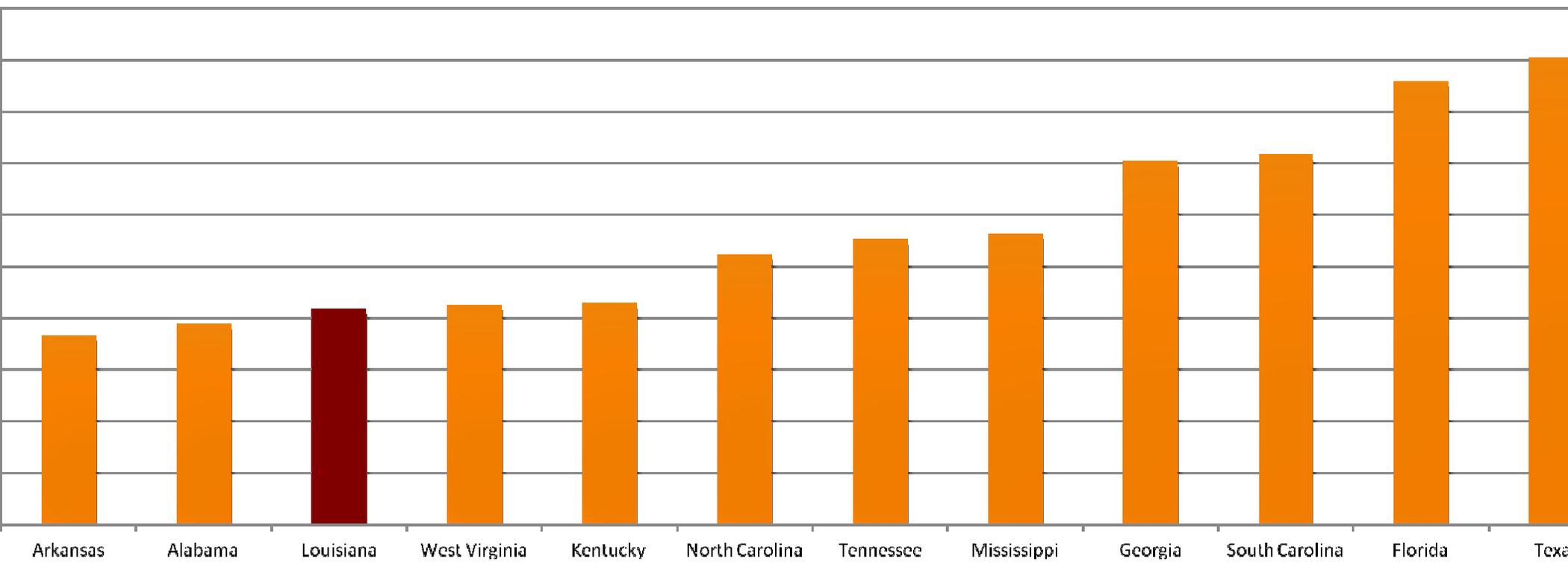


# % of State and Local Revenues from Major State and Local Taxes



# Property Taxes in Southeastern States

Property Taxes as % of All State and Local Revenues



# Property Tax

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## Task Force's Preliminary Recommendations

- No Change in Homestead Exemption
- Make State Local Involvement in Granting of ITEP permanent
- ITEP provisions
  - Initial: Up to 100% for 5 Years
  - Renewal: Up to 80% for 3 years
- Eliminate Inventory Tax over 10 Years and eliminate inventory tax credit over 5 Years

## Tax Foundation

- Permanently limit the total value of the industrial tax exemption to 80%
- Allow localities to approve or reject any extension of the industrial tax exemption for the second five years.
- Repeal inventory tax and the inventory tax credit

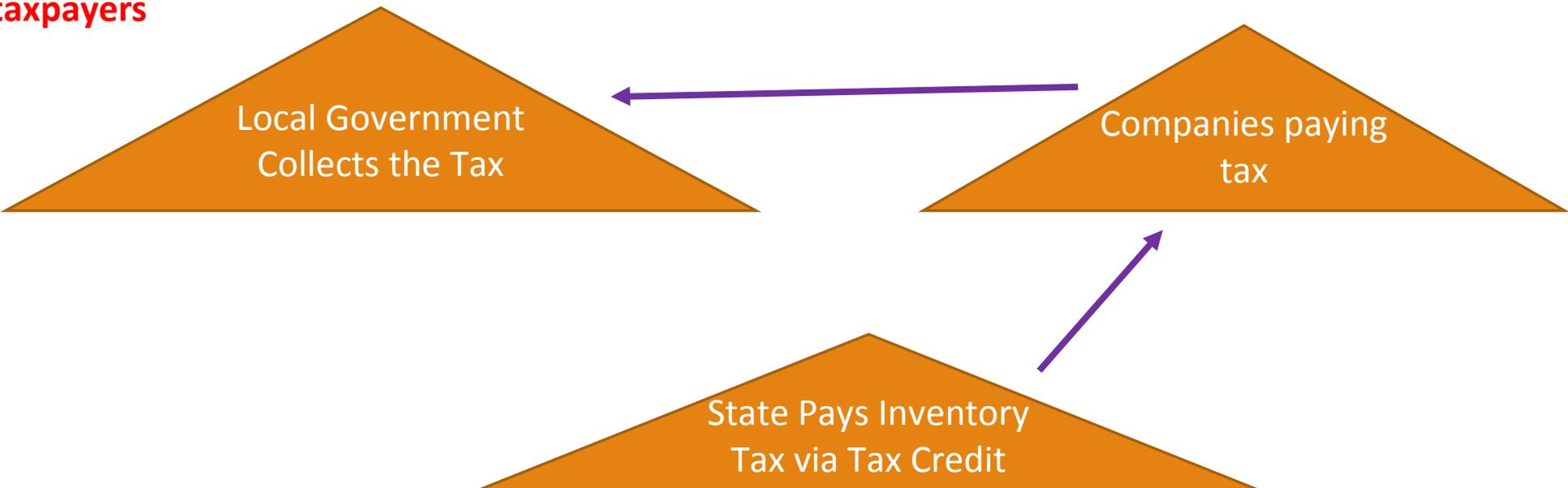
**Suggestions from Task Force and Tax Foundation similar except for elimination of the inventory tax at the local level**

# Inventory Tax Credit

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**Eliminate the inventory tax,  
hurt the local governments and/or  
taxpayers**

**If we eliminate the tax credit without eliminating the  
we hurt the company**



**If we do not eliminate the credit, we hurt the state's finances**

# Questions

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