State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
Governor

KIMBERLY LE
Sec

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FOR MORE INFORMATION:
Byron Henderson
Public Information Director
225.219.2156
Byron.Henderson@la.gov

State tax task force recommends package of changes with broader base and lowered rates

BATON ROUGE – Louisiana's tax system would be simplified with lower rates, fewer exemptions and a broader revenue base under recommendations from the task force charged with developing a more stable funding model for state government.

The Task Force on Structural Changes in Budget and Tax Policy presented its final recommendations to the state legislature on Tuesday. The task force emphasizes that an effective tax structure should be fair, simple, and stable in the long term.

"Louisiana's tax system should be easy to comply with and should be competitive with other states," said task force co-chair and Secretary of Revenue Kimberly Lewis Robinson. "And there should be minimal exceptions, so we are advising lawmakers to address a multitude of exemptions, deductions and credits that have multiplied over the years."

The task force's recommendations focus on the budget, as well as sales, individual income, corporate income and franchise, and property taxes.

"We recommend implementing this full package as a comprehensive solution to stabilize the state's finances," said task force co-chair Jim Richardson, who serves also as chair of the state Revenue Estimating Conference. "A piecemeal approach will fall short of that goal."

Budget

Recommendations include implementing and adhering to improved revenue forecasting, particularly with regard to the MFP, Medicaid and TOPS; and continuing the ongoing review of state contracts to identify opportunities for consolidation, renegotiation or elimination.

Sales Tax

Recommendations include reducing the state sales tax rate to no more than 4 percent; expanding the state sales tax base to include non-residential utilities and certain services currently taxed in Texas and other states; and retaining eliminations of exemptions made by the Legislature earlier this year.

Individual Income

The task force recommends two options for individual income tax changes.

One, a constitutional amendment repealing the state deduction for federal income taxes paid, would expand the tax base, narrow the brackets and lower all individual income tax rates by 25 percent:

a) 1.5 percent on the first $25,000 for couples ($12,500 single);
b) 3 percent on $25,001 through $50,000; and
c) 4.5 percent above $50,000

The second option, a statutory change removing the excess itemized deduction, would use the new three-bracket structure, but would leave the rates at 2%, 4% and 6%.

Various exemptions would be eliminated or allowed to expire.

Corporate Income

Corporate income tax recommendations include support for eliminating the state corporate income tax deduction for federal income tax, a constitutional amendment (Amendment 3 on the Nov. 8, 2016, election ballot). If passed, the amendment would also trigger a simpler, flat corporate income tax rate of 6.5 percent that would be more stable than the current graduated rate which ranges from 4 to 8 percent.

Property Tax

Recommendations include amending the state constitution to allow for the gradual, ten-year phase out of locally assessed ad valorem taxes on inventory.

The task force also recommends elimination over a five-year period of the state income and franchise tax credit for ad valorem taxes paid on inventory.

The full set of recommendations is available at www.revenue.louisiana.gov/taskforce.

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