



# Legislative Fiscal Office

*for the state of Louisiana*

## Louisiana Personal & Corporate Tax Reform, 2021

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# Overview

- Three-pronged reform, affecting:
  - Personal Income Tax (PIT)
  - Corporate Income Tax (CIT)
  - Corporate Franchise Tax (CFT)
- Aimed at overall revenue neutrality, via simplifying & overall broadening
- Required three separate bills. When provisions are tied together and in full effect, package results in a slight net-negative fiscal effect



# Some context, and why care

- Consecutive years of excess revenue relative to adopted forecasts, particularly in PIT/CIT, leading to budget surpluses
- Relative importance to total collections (approx. \$12 bil):
  - PIT: 30-33% of total
  - CIT: 4-6% of total
  - CFT: 2-3% of total
- Priorities: simplification, business climate rankings
- If your political environment resembles ours... similar efforts coming to a state near you?



# PIT Reform: Motivations

- Decouple from federal income tax system
- Improve rankings in interstate tax competition indices
- Broaden base, lower rates
- Potential future rate cuts, in the event of revenue collections outperformance



# PIT Reform: Elements

- Eliminate deductions
  - Federal income taxes paid
  - Nearly all federal excess itemized deductions
- Reduce rates on all current law brackets
- Constitutional maximum rate of 4.75%
- Effective tax year 22, pending favorable statewide vote
  
- Effective rate cut for most non-itemizers (93% of filers in FY19)
- Most itemizers get effective rate increase (7% filers)
- Trigger mechanism for automatic future rate cuts



# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	joint			
0-12.5	0-25	2%		
12.5-50	25-100	4%		
50+	100+	6%		



# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	joint			
0-12.5	0-25	2%	1.85%	
12.5-50	25-100	4%	3.5%	
50+	100+	6%	4.25%	



# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	joint			
0-12.5	0-25	2%	1.85%	7.5%
12.5-50	25-100	4%	3.5%	12.5%
50+	100+	6%	4.25%	29.2%





# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	joint			
0-12.5	0-25	2%	1.85%	7.5%
12.5-50	25-100	4%	3.5%	12.5%
50+	100+	6%	4.25%	29.2%

Act 395 Fiscal Note (PIT, \$mil)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Liability Change	+ \$1.5	+ \$8.5	+ \$6.9	+ \$6.9	+ \$6.9
(Less) Medical Excess Itemized Deduction					
<b>Net Revenue Change</b>					



# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	Joint			
0-12.5	0-25	2%	1.85%	7.5%
12.5-50	25-100	4%	3.5%	12.5%
50+	100+	6%	4.25%	29.2%

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Liability Change	+ \$1.5	+ \$8.5	+ \$6.9	+ \$6.9	+ \$6.9
(Less) Medical Excess Itemized Deduction	- \$7.5	- \$7.5	- \$7.5	- \$7.5	- \$7.5
<b>Net Revenue Change</b>					



# PIT Reform: Elements

Taxable income (\$k)		Current rate	New rate	Rate cut magnitude
single	Joint			
0-12.5	0-25	2%	1.85%	7.5%
12.5-50	25-100	4%	3.5%	12.5%
50+	100+	6%	4.25%	29.2%

Act 395 Fiscal Note (PIT, \$mil)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Liability Change	+ \$1.5	+ \$8.5	+ \$6.9	+ \$6.9	+ \$6.9
(Less) Medical Excess Itemized Deduction	- \$7.5	- \$7.5	- \$7.5	- \$7.5	- \$7.5
<b>Net Revenue Change</b>	<b>+ \$1.0</b>	<b>- \$0.6</b>	<b>- \$0.6</b>	<b>- \$0.6</b>	<b>- \$0.6</b>



# CIT Reform: Motivations

- Decouple from federal income tax system
- Broaden base, lower rates
- Improve tax climate rankings
  
- Net increase in CIT burden
- Roughly offset the net decrease in CFT burden



# CIT Reform: Elements

- Modify brackets:
  - Compress five brackets into three
- Reduce rates on new brackets
- Eliminate deduction for federal income taxes paid
- Effective tax year 22, pending favorable statewide election



# CIT Reform: Elements

Taxable income (\$k)	Current rate	Taxable income (\$k)	New rate
0-12.5	4%		
25-50	5%		
50-100	6%		
100-200	7%		
200+	8%		



# CIT Reform: Elements

Taxable income (\$k)	Current rate	Taxable income (\$k)	New rate
0-12.5	4%	0-50	3.5%
25-50	5%		
50-100	6%	50-150	5.5%
100-200	7%		
200+	8%	150+	7.5%



# CIT Reform: Elements

Taxable income (\$k)	Current rate	Taxable income (\$k)	New rate
0-12.5	4%	0-50	3.5%
25-50	5%		
50-100	6%	50-150	5.5%
100-200	7%		
200+	8%	150+	7.5%

Act 396 Fiscal Note (CIT, \$m)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Liability Change	+ \$5.3	+ \$26.3	+ \$29.2	+ \$29.2	+ \$29.2





# CFT Reform: Motivations

- Improve tax climate rankings
- Reduction of franchise tax burden
- Made revenue-neutral within the reform package by roughly offsetting with net increase in CIT burden



# CFT Reform: Elements

- Effective tax year 23, pending favorable statewide election
- Eliminate bottom tier of tax
- Reduce remaining top tier rate

Taxable capital (\$k)	Current rate	New rate	Rate cut magnitude
0-300	0.15%		
300+	0.30%		



# CFT Reform: Elements

- Effective tax year 23, pending favorable statewide election
- Eliminate bottom tier of tax
- Reduce remaining top tier rate

Taxable capital (\$k)	Current rate	New rate	Rate cut magnitude
0-300	0.15%	0	total
300+	0.30%	0.275%	8.3%

- Aggregate CFT liability reduction
- Trigger mechanism, similar to PIT

Act389 Fiscal Note (CFT, \$mil)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Liability Change	- \$7.5	- \$25.2	- \$50.3	- \$55.9	- \$55.9



# Combining Everything:

Fiscal Notes (\$mil)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
PIT Net Change	+ \$1.0	- \$0.6	- \$0.6	- \$0.6	- \$0.6
CIT Net Change	+ \$5.3	+ \$26.3	+ \$29.2	+ \$29.2	+ \$29.2
CFT Net Change	- \$7.5	- \$25.2	- \$50.3	- \$55.9	- \$55.9

Combined (\$mil)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
<b>Net Revenue Impact</b>	<b>- \$1.2</b>	<b>+ \$0.5</b>	<b>- \$21.7</b>	<b>- \$27.3</b>	<b>- \$27.3</b>



# Trigger Provisions: PIT & CFT

- Concept: trigger engages in the event of strong collections
- Three provisions to be met to engage trigger:
  - Budget Stabilization “Rainy Day” Fund must exceed 2.5% of prior year’s total state revenues
  - Total state tax/license/fee (TLF) revenues must exceed an estimate of a COVID-free TLF counterfactual
  - Individual revenue stream also must exceed COVID-free counterfactual for each particular revenue stream. For CFT trigger, CFT & CIT combined must exceed
- CFT trigger in place in perpetuity, PIT trigger in place for 10 years



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Questions?

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