

SPECIAL SESSIONS

Tax Proposals

SCENARIO I

A 0.25% increase in sales tax

The sale tax hike sunsets on July 1, 2018, returning to 4% for general sales. One proposal calls for increasing the sales tax by 0.25% to help offset the budget deficit. However, as can be seen in the table below, this small increase negatively affects employment in the form of **1,400 lost full-time jobs and lowers GDP by \$86 million in the first year.**

Year	BASELINE			DIFFERENCE FROM BASELINE		
	GDP	Employment	Tax Revenues	GDP	Employment	Tax Revenues
2018	219,804	2,076,400	9,086	-86	-1,400	164
2019	223,283	2,093,900	9,230	-108	-1,500	166
2020	226,818	2,111,600	9,376	-112	-1,500	169
2021	230,408	2,129,500	9,524	-114	-1,400	171
2022	234,055	2,147,500	9,675	-116	-1,400	174
2023	237,759	2,165,600	9,828	-118	-1,400	176
2024	241,522	2,183,900	9,984	-120	-1,400	179
2025	245,345	2,202,400	10,142	-122	-1,400	181

Note:
 GDP and tax revenues in millions of 2009\$.
 Employment in units of full-time equivalent non-farm jobs, rounded to the nearest hundred.



SCENARIO II

A 0.5% increase in sales tax

Along the same lines as the first proposal, a 0.5% sales tax increase is thought to help lower the budget deficit. In this case, doubling the tax increase doubles the negative impact. The table below shows employment falling by 2,800 and GDP decreasing by \$173 million in the first year.

Year	BASELINE			DIFFERENCE FROM BASELINE		
	GDP	Employment	Tax Revenues	GDP	Employment	Tax Revenues
2018	219,804	2,076,400	9,086	-173	-2,800	329
2019	223,283	2,093,900	9,230	-216	-2,900	332
2020	226,818	2,111,600	9,376	-223	-2,900	337
2021	230,408	2,129,500	9,524	-227	-2,900	342
2022	234,055	2,147,500	9,675	-231	-2,900	347
2023	237,759	2,165,600	9,828	-235	-2,900	352
2024	241,522	2,183,900	9,984	-239	-2,800	357
2025	245,345	2,202,400	10,142	-243	-2,800	363

Note:
GDP and tax revenues in millions of 2009\$.
Employment in units of full-time equivalent non-farm jobs, rounded to the nearest hundred.

SCENARIO III

Income Bracket Shifting

Another idea that has been suggested is to raise revenue by adjusting the current individual income tax system. Currently, Louisiana has a progressive income tax where a taxpayer pays 2% on their first \$12,500, 4% on income between \$12,500 and \$50,000, and 6% on all income over \$50,000. Under the proposed tax bracket change, a taxpayer would pay 2% on their first \$12,500, 4% on income between \$12,500 and \$25,000, and would pay 6% on all income over \$25,000.

All else equal, shifting the top two income brackets increases the marginal tax rate faced by the middle-class as well as increasing the effective tax rate for a majority of workers. Using a macroeconomic general equilibrium model calibrated to Louisiana's economy, we find that changing the income tax brackets based on the above described policy would **decrease GDP by \$191 million and lower expected employment by 2,600 jobs in the first year, while increasing tax revenues by only \$190 million.**

Year	BASELINE			DIFFERENCE FROM BASELINE		
	GDP	Employment	Tax Revenues	GDP	Employment	Tax Revenues
2018	219,804	2,076,400	9,086	-191	-2,600	190
2019	223,283	2,093,900	9,230	-306	-2,800	190
2020	226,818	2,111,600	9,376	-325	-2,700	191
2021	230,408	2,129,500	9,524	-333	-2,600	193
2022	234,055	2,147,500	9,675	-340	-2,600	195
2023	237,759	2,165,600	9,828	-347	-2,500	197
2024	241,522	2,183,900	9,984	-354	-2,400	199
2025	245,345	2,202,400	10,142	-361	-2,400	201

Note:
GDP and tax revenues in millions of 2009\$.
Employment in units of full-time equivalent non-farm jobs, rounded to the nearest hundred.



SCENARIO IV

Reduction in Individual Income Tax Deductions

Another proposal seeks to increase tax revenue by reducing the amount allowable for individual income tax deductions due to excess federal itemized personal deductions. We find that this policy would lead to a decrease in full-time employment by 700 jobs and lowers GDP by \$56 million.

Year	BASELINE			DIFFERENCE FROM BASELINE		
	GDP	Employment	Tax Revenues	GDP	Employment	Tax Revenues
2018	219,804	2,076,400	9,086	-56	-700	56
2019	223,283	2,093,900	9,230	-89	-700	56
2020	226,818	2,111,600	9,376	-95	-700	57
2021	230,408	2,129,500	9,524	-97	-700	57
2022	234,055	2,147,500	9,675	-99	-600	58
2023	237,759	2,165,600	9,828	-101	-600	59
2024	241,522	2,183,900	9,984	-103	-600	59
2025	245,345	2,202,400	10,142	-105	-600	60

Note:
 GDP and tax revenues in millions of 2009\$.
 Employment in units of full-time equivalent non-farm jobs, rounded to the nearest hundred.