LOUISIANA'S COMEBACK

A Tax Plan for Our Brighter Future

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Introduction

For far too long, poor public policy decisions have caused Louisiana families to suffer while the residents of neighboring states thrive. The future, for too many families, involves seeing their kids, grandkids, other family members, and friends move to other states to find work and opportunity. But it does not have to be this way. In fact, it should not.

Look at Louisiana's assets: five of the top 15 ports in the country, one of the most active natural gas sectors[1] in the nation, leadership among the states for oil refineries, affordable land, unparalleled food and culture, and the mouth of the mighty Mississippi River. All this would be enough to position any place to be an economic powerhouse. And yet, the state performs poorly in nearly every economic ranking.[2]

The good news is that Louisianans are in control of their future. Louisiana can, with its assets and some sound policy decisions, turn the page and embrace a new future of opportunity. When its leaders lower tax rates, limit government spending, and unleash our economic potential, our kids and grandkids can come home and enjoy all the things they love about our state, and others will move here to start a family, business, or career.

With Louisiana's economy struggling, individuals, families, and businesses want more money in their pockets. They can have this if the state enacts meaningful, long-lasting tax relief, sustained by responsible budgeting. Tax reform—removing barriers to work and investment while not placing heavy burdens on individuals and households—can spark an economic comeback in Louisiana. The result: The Pelican State will retain and attract people.

But fiscal reform alone cannot bring the change this state so desperately needs; it must be coupled with a focused approach to regulatory reform that fosters freedom. Lawmakers and others have an opportunity and responsibility to embrace a comprehensive, holistic approach that will modernize Louisiana's tax and budget policies, bringing long-needed fiscal stability and abundant human flourishing. Only then will the state finally be able to roll out the welcome mat that proclaims, "Louisiana is open for business."

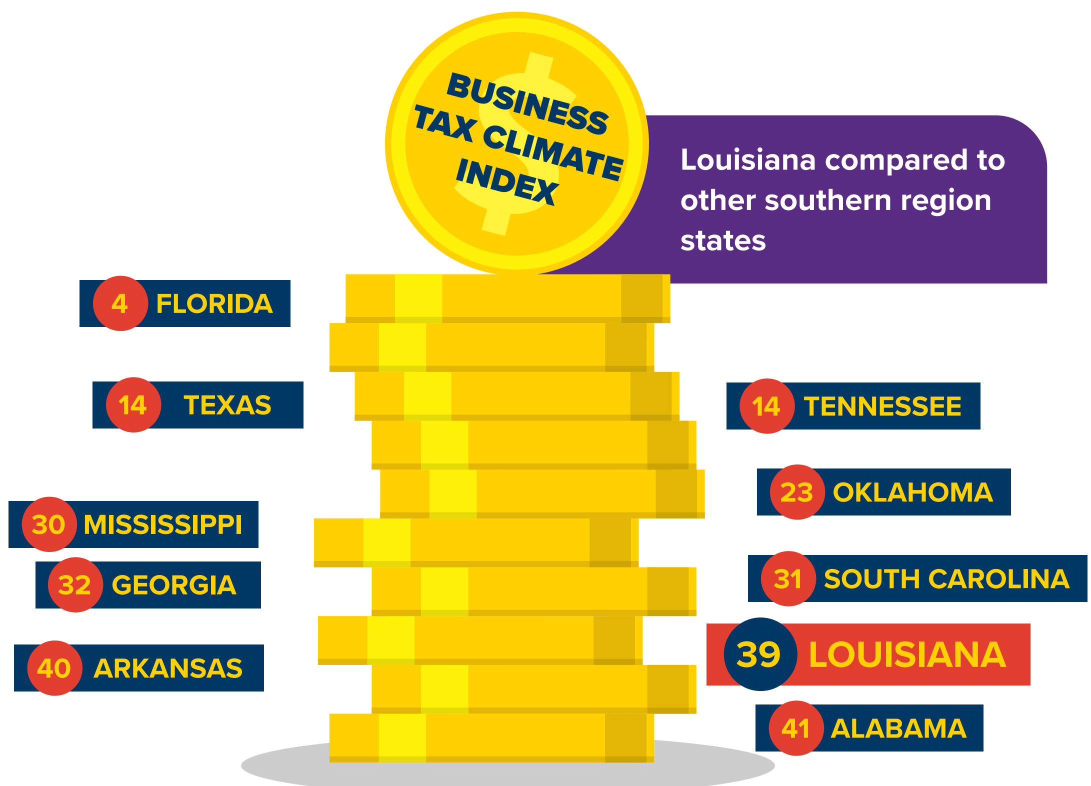
We outline why the time for reform is now and how it can be done. This is a major piece of the changes[3] needed to make Louisiana the best place to raise a family or start a business.

Competitiveness Matters

States compete to see who can deliver the best economic outcomes. Economic freedom and sound economic policy are correlated with each other. A state with a less burdensome tax system is more competitive and more likely to attract businesses, investments, and skilled labor. Lower tax rates can incentivize businesses to invest and create jobs. They also can foster economic growth and encourage individuals to remain in one state or move to another.

Tax policies help shape a state's overall business climate.[4] Some states are closer to having a tax system that is equitable and transparent. This system minimizes complexity in the tax code, efficiently funds limited government, and avoids excessive tax burdens. A more favorable business climate encourages entrepreneurship, innovation, and private sector growth. In the short run, lower taxes provide more "take home" pay for employers and employees, increasing their quality of life. Over time, these lower taxes attract businesses to the area, encourage saving and investing, which support more opportunities. Also, this improved tax system provides a sustainable way to raise wages and standards of living. Tax reform helps increase economic activity, leading to more well-paid jobs, more prosperity, and less poverty.

Tax policy is an important factor shaping a state's economic competitiveness, but other factors play a role, too. These include limited government spending, a sensible regulatory environment, an abundant skilled workforce, stable infrastructure, and easy access to markets. Nonetheless, a well-crafted tax policy that supports a limited amount of government spending and increased business investments is an important key to more economic growth and more individual opportunity, supporting a competitive and prosperous state.



Louisiana's Economy has Struggled

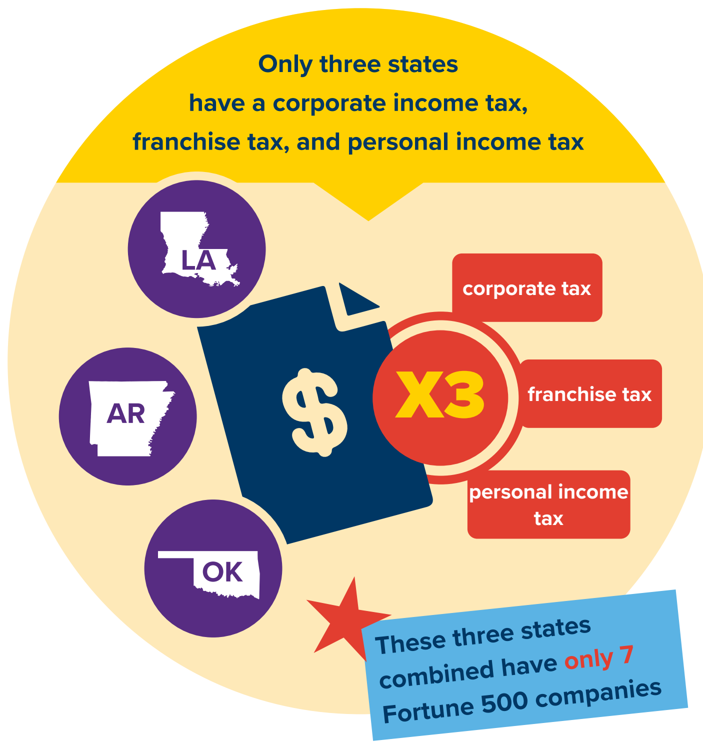
Louisiana has struggled for decades with sluggish economic growth, increased net outmigration, and elevated poverty. In 2021, it had the highest poverty rate in the nation, at 19.5%[5] of the total population.

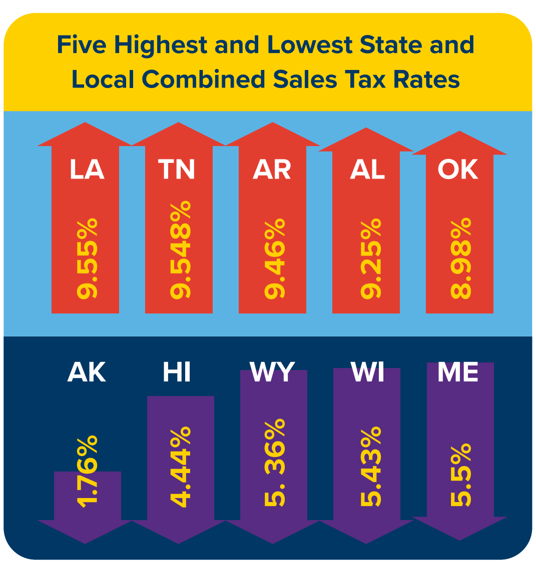
The combination of tepid economic growth and the nation's third-fastest net outmigration[6] means that Louisianans are losing ground to our neighbors, and the rest of the country, faster than ever before. The state must take the critical steps toward economic sustainability by enacting sweeping fiscal reforms.

Louisiana compares poorly to other states on many measurements of economic health. It is 39th in the Tax Foundation's latest state business tax climate index,[7] which ranks states by their corporate and individual income taxes, sales taxes, unemployment insurance taxes, and property taxes.

Compare Louisiana to other states in the Southern region:

Only three states in the nation[12] have a corporate income tax, franchise tax, and personal income tax: Louisiana, Oklahoma, and Arkansas. Unsurprisingly, these states are home to only seven Fortune 500 companies.[13]





Forty-five states collect statewide sales taxes. Louisiana[11] has the highest combined state-local sales tax rate in the nation at 9.55%, followed closely by Tennessee at 9.548%. While Tennesseans may live with the second-highest sales tax rate, they are not burdened by a personal income tax, as Louisianans are.

Table 1 compares Louisiana with the four largest states in the country[8] (California, Texas, Florida, and New York), three states without a personal income tax[9] (Texas, Florida, and Tennessee), two states with the highest marginal personal income tax rates [10](California and New York), and four nearby Southern states (Florida, Texas, Mississippi, and Tennessee). The states are listed in order of their ranking in economic freedom, and the rankings for each measure are noted by blue for "best" and red for "worst."

Table 1. Louisiana vs. Other States: Economic Freedom, Government Burdens, and Economic Variables

Measure	U.S.	FL	TX	TN	LA	MS	CA	NY
Economic Freedom of North America (2020)[14]	7th (World)	1st	4th	4th	20th	40th	49th	50th
State Migration Trends, Net Migration (2022)[15]	--	1st	4th	11th	48th	44th	41st	50th
State Business Tax Climate (2023)[16]	--	4th	13th	14th	39th	30th	48th	49th
State Economic Outlook (2023)[17]	--	9th	13th	11th	26th	22nd	45th	50th
State & Local Spending Per Capita (2022)[18]	--	46th	37th	45th	26th	34th	4th	2nd
S&L Spending on Public Welfare Per Capita (2020)[19]	--	47th	44th	31st	12th	29th	5th	1st
S&L Tax Burden Per Capita (2022)[20]	--	11th	6th	3rd	12th	21st	46th	50th
S&L Property Tax Collections Per Capita (2020)[21]	--	22nd	40th	4th	7th	15th	36th	47th
Composite Cost of Living Index (2023:Q2)[22]	--	31st	18th	10th	17th	1st	49th	48th
Avg. U-3 Unemployment Rate (2003-22)[23]	6.0%	5.6%	5.6%	6.0%	5.9%	6.9%	7.3%	6.2%
Avg. Labor Force Participation Rate (2003-22)[24]	64.0%	60.6%	65.2%	61.8%	60.1%	57.6%	63.5%	61.5%
Avg. Annual Nonfarm Payroll Growth (2003-22)[25]	0.8%	1.4%	1.8%	1.0%	0.1%	0.2%	1.0%	0.6%
Avg. Income Earned by Top 5% of Income Earners (2003-18)[26]	36.9%	44.60%	36.8%	33.6%	32.2%	30.7%	39.4%	47.1%
Official Poverty Rate (2020-22)[27]	11.5%	13.1%	13.7%	11.4%	16.9%	17.8%	11.4%	12.4%
Supplemental Poverty Rate (2020-22)[28]	9.8%	12.7%	11.3%	8.3%	10.9%	12.5%	13.2%	11.9%

Notes. Dates in parentheses are for that year or the average of that period. Data shaded in blue indicate "best," and in red indicate "worst" per category by state.

These data show that states with less economic freedom, higher marginal personal income tax rates, and higher burdens of government (New York, California, and Louisiana) tend to perform worse when it comes to employment, job growth, income inequality, and poverty.

Louisiana has a complicated tax code, along with a progressive personal income tax, progressive corporate income tax, corporate franchise tax, local inventory tax, and other taxes. As a result, there is less opportunity here for entrepreneurs to start businesses and for families to thrive**.** In fact, Louisiana had the lowest average job creation rate and the second-highest poverty rate in this comparison. It also has the third-worst rate of net outmigration[29] in the country, with more than 30,000 people leaving than entering in 2022.

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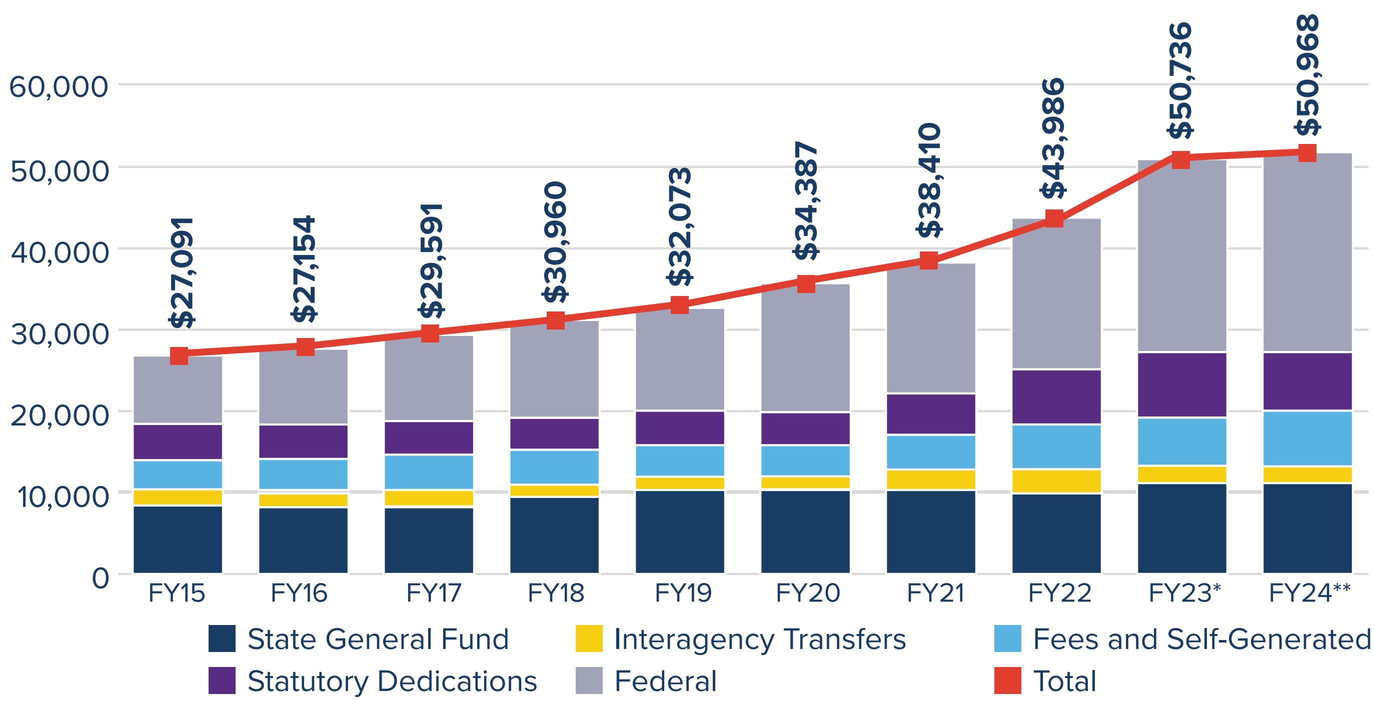
Fiscal Responsibility

Reforming the state's tax policies without corresponding budget reform—or vice versa—will create an unsustainable fiscal situation. This is what happened in Kansas when lawmakers created a budget deficit by cutting taxes but not restraining spending.[30] Faced with a deficit, they chose to raise taxes rather than cut spending.[31] The problem was not the tax cuts themselves but rather the lack of spending restraint that made the tax cuts unsustainable. This is an important lesson for Louisiana.

Budgeting is a process of setting the state's priorities for spending taxpayers' money, and Louisiana has done a poor job of it. This has allowed government spending to surge uncontrollably over the past few years. Massive influxes of general revenue taxes and temporary federal funds have supported this excessive spending, but when they were used up, there was added pressure on the state budget.

Figure 1. Louisiana's Spending Growth in $ Millions[32]



**FY 23 Existing Operating Budget as of 12/1/2022*
***FY 24 Enacted Budget*

Over the past decade, the budget has nearly doubled, growing 87% since 2015 and nearing $51 billion for fiscal year 2024. It has grown nearly twice as fast as inflation, even with post-2020 inflation rates. This growth in state spending is unsustainable, given the lack of growth in the state's economy and Louisiana's history of net outmigration. With a state population of 4.6 million and a population declining over the last few years, the budget represents a spending burden of more than $11,000 for each man, woman, and child.

Louisiana ranks 29th in the nation for spending and has the highest per capita spending in the South.[33] Given that the large amount of federal funds for COVID-19-related expenditures in recent years is going away, this amount of spending is unsustainable.

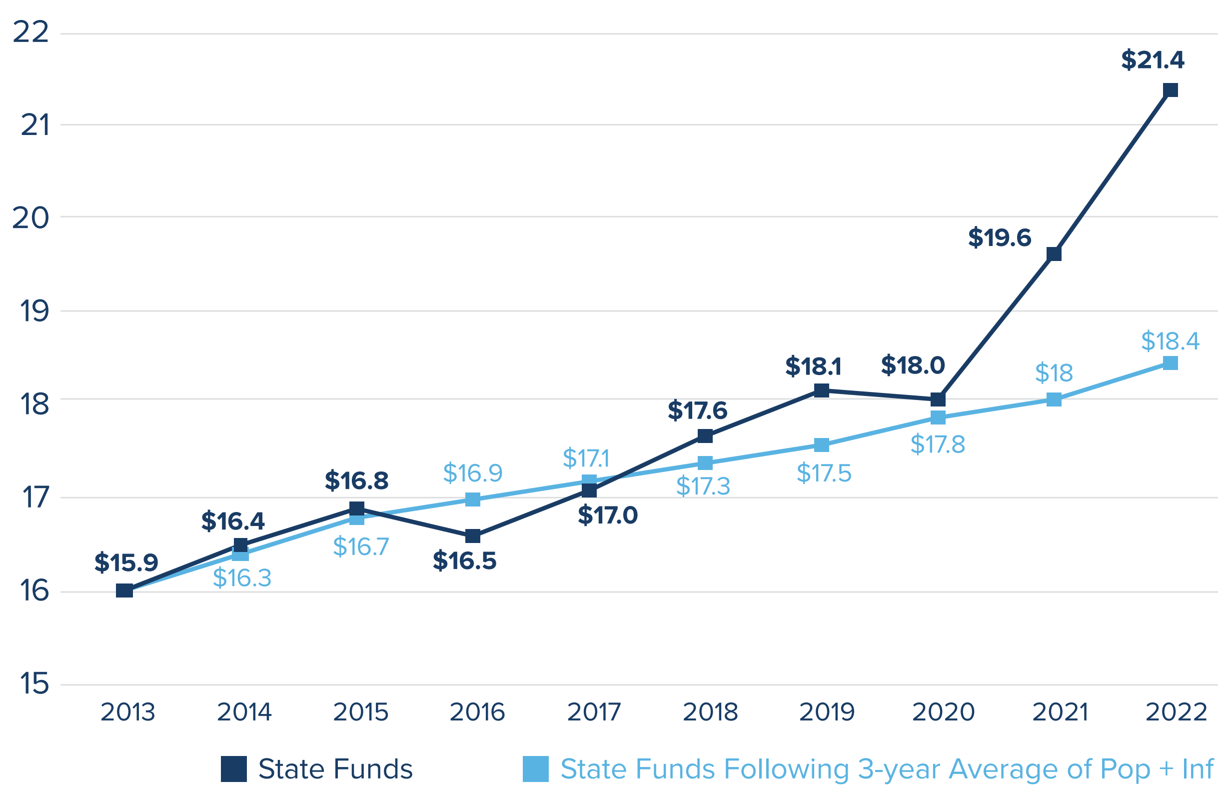
Pelican discussed the myriad ways that current budgeting practices hinder fiscal reform in its Citizen's Guide to the Budget.[34] To implement sweeping tax reform more effectively, lawmakers must implement responsible budget practices that will help make Louisiana's government more effective in its limited role and enhance the economy's potential in the long term. These practices must place a high priority on state programs and institutions that provide limited government. The Pelican Institute's Comeback Agenda[35] highlighted several steps to improve budgeting processes and create sustainable fiscal responsibility. Sweeping tax reform requires government leaders to do the following:

1. Limit the growth of spending with a stronger fiscal rule by using an improved expenditure limit that is difficult to exceed and contains few, if any, exclusions. This stronger spending limit should be combined with an appropriations limit. This approach will ensure responsible budgeting[36] to support limited government without exceeding the average taxpayer's ability to pay for it. The spending limit should be defined as a maximum growth rate of a three-year moving average rate of population growth plus inflation, which the state has exceeded over the last decade.

2. Restructure the state-local government relationship to lessen local reliance on state taxpayers and impose spending restraint at every level. This places government spending closer to the people it serves, giving voters easier access to elected officials so they can offer input about funding priorities. It will also change the mentality that state lawmakers are elected to "bring home the bacon" rather than to provide limited government that makes the state a better place for all Louisianans.

3. Refocus capital outlays to fund only essential government projects. The state should stop funding non-governmental organizations through capital outlays and limit local government projects to essential infrastructure items like roads, bridges, water, sewer, and drainage system improvements. It should combine this change with strict local government matching requirements so that the entire spending burden does not fall on taxpayer dollars collected by the state.

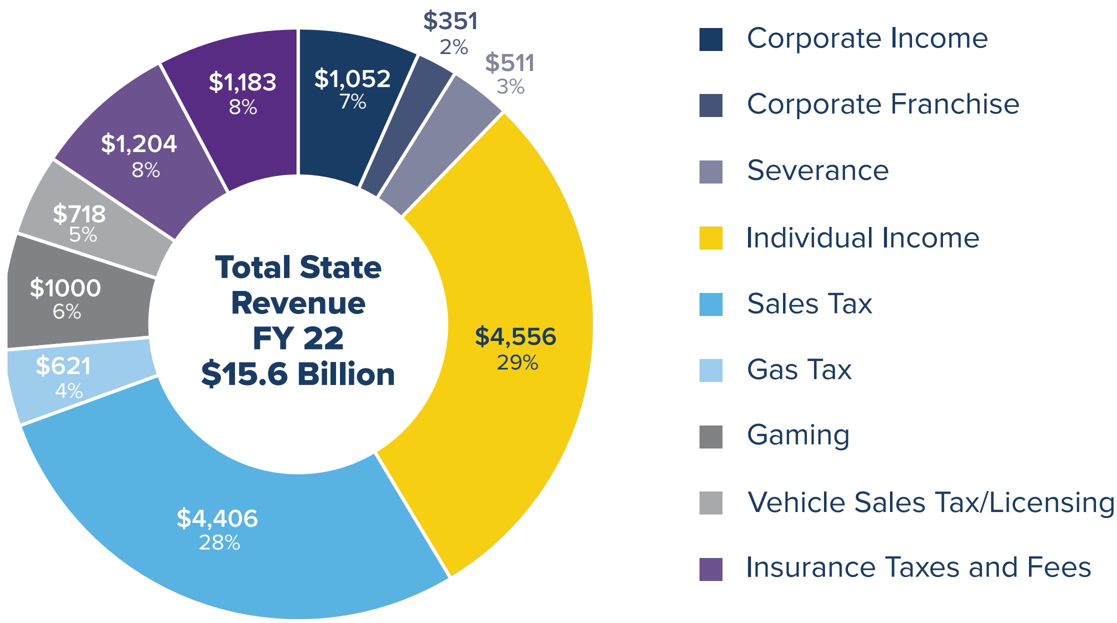
Figure 2. Louisiana's State Funds Spending Far Exceeds Population Growth Plus Inflation ($ Billions)



An Overview of the Tax System in Louisiana

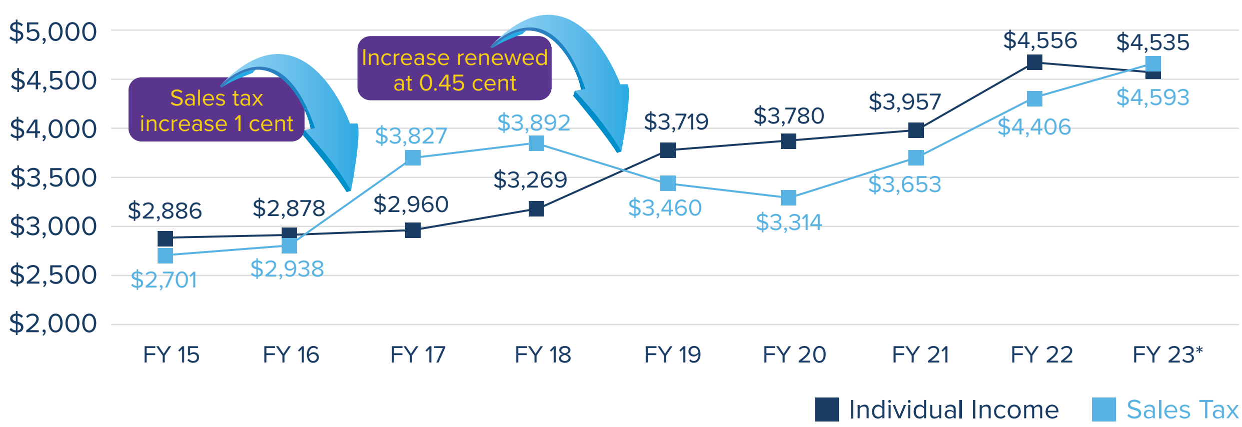
Louisiana's state government receives its revenue from a variety of sources. These include taxes on personal and business income, sales of goods, mineral and petroleum product mining, gaming, and business wealth. In fiscal year 2022, the state collected $15.6 billion in tax revenue, more than half of which came from individual income taxes and sales taxes.

Figure 3. Total State Revenue FY 22 ($ Millions)[37]



Figures 4, 5 and 6 show a historical perspective on tax collections for fiscal years 2015 through 2022, as well as estimated revenues for FY 2023.

Figure 4. State Sales and Individual Income Taxes, FY 2015-23 ($ Millions)



*FY23 Estimated Revenue as of 5/18/23

Figure 5. **Severance, Vehicle Sales Tax/Licensing, and Gas Tax, FY 2015-23 ($ Millions)**

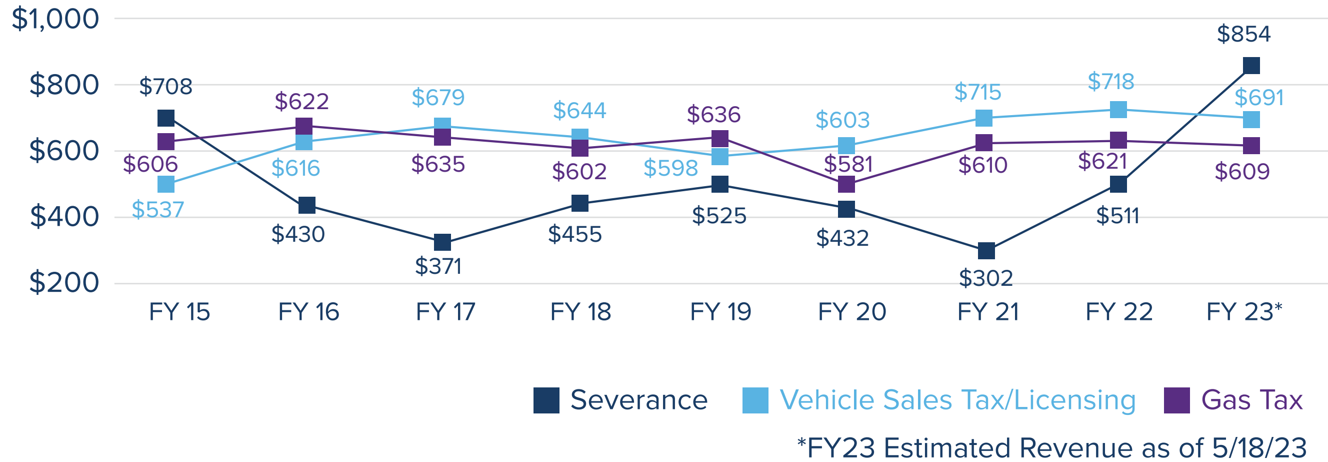
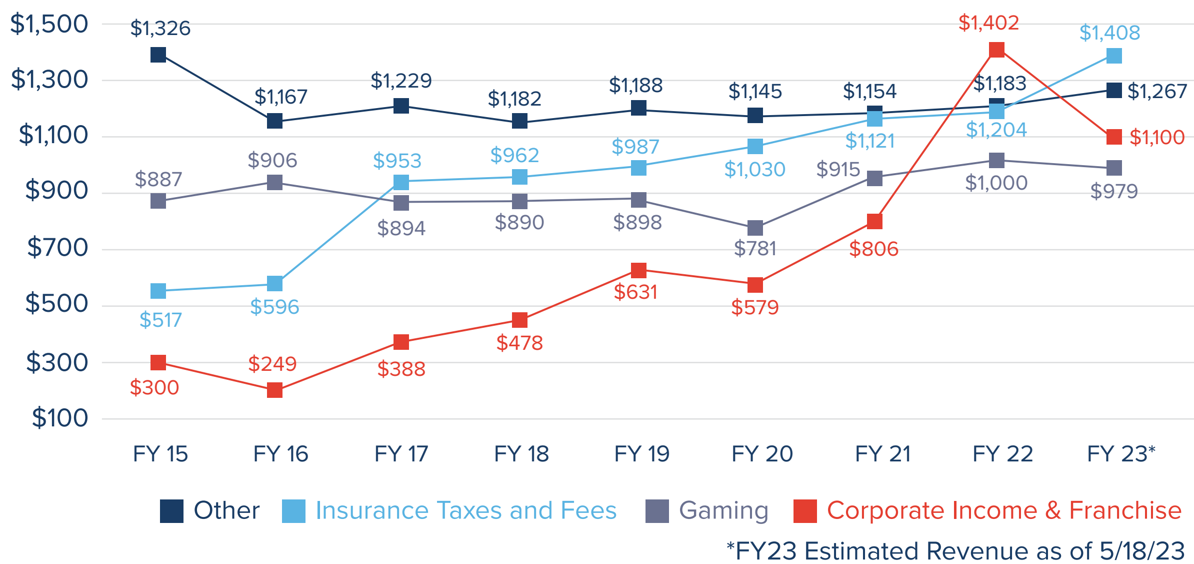
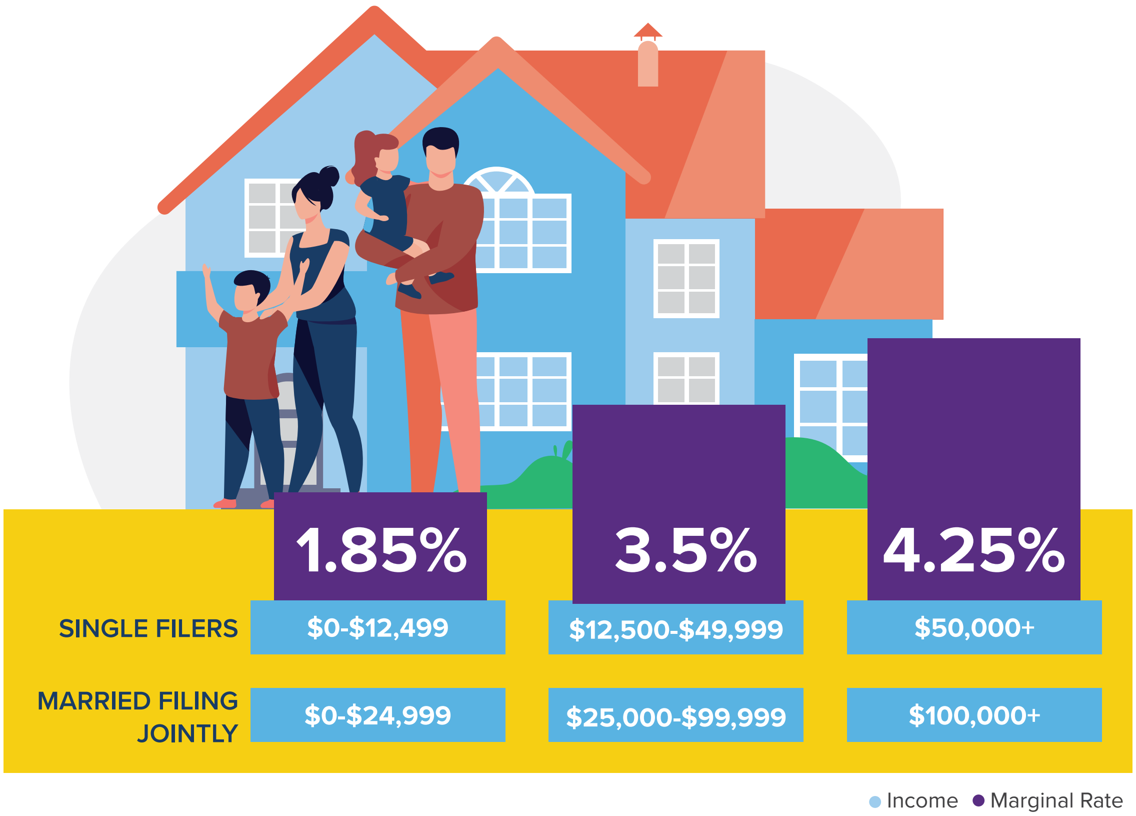


Figure 6. **Corporate Income & Franchise Taxes, Gaming, Insurance, and Other Taxes, FY 2015-23 ($ Millions)**



INDIVIDUAL INCOME TAXES

Louisiana[38] has a graduated, or progressive, individual income tax, with three rates.



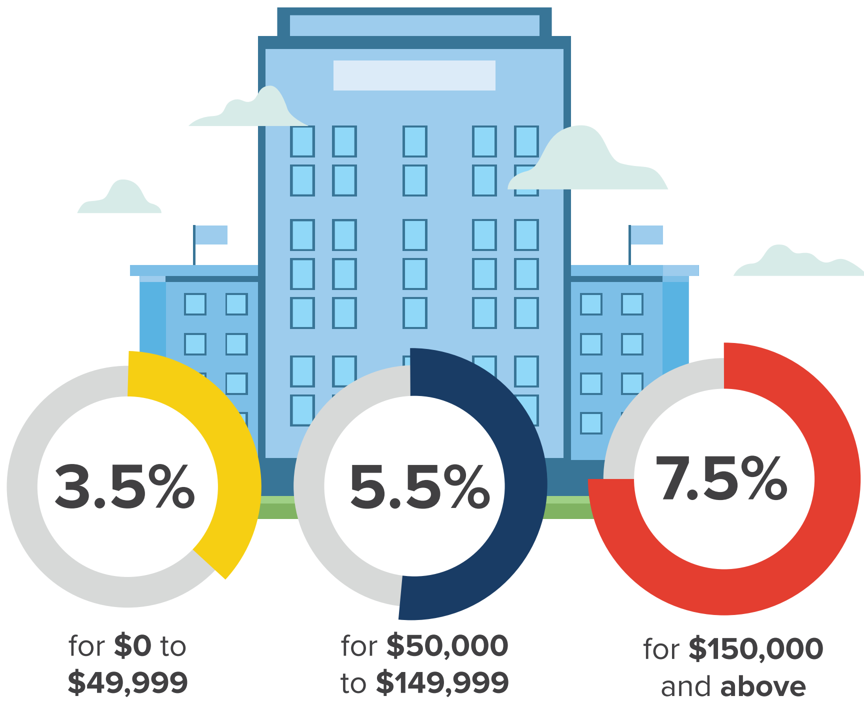
Single filers can claim a personal exemption of $4,500, while couples can claim $9,000. There is a $1,000 exemption for each dependent.

In 2021,[39] the Legislature enacted tax reforms[40] that eliminated several tax deductions in exchange for lower tax rates for each income bracket. But there is still a progressive tax system that taxes income at higher rates for each additional dollar earned, which disincentivizes people from working and living here. Lawmakers also enacted revenue "triggers" to further reduce rates as tax revenue increases over time. While this is a good step, there is no way to predict when and by how much those rates will be reduced, leaving taxpayers with uncertainty. As was shown in the most recent 2023 state legislative session, legislators, when given the choice, will fail to trigger the rate reductions—even when revenues far exceed expected growth rates.

Many small businesses in Louisiana pay passthrough taxes, meaning their tax obligations are funneled through individual tax returns. So delaying reforms to the personal income tax system delays giving much-needed relief to many of Louisiana's employers, who invest in capital and hire workers. Compared with other states,[41] Louisiana ranks 25th for its individual income tax, according to the Tax Foundation's 2023 State Business Tax Climate index.[42] Seven states have no personal income tax, and 14 have a flat income tax, with possibly more coming soon. The remaining states have a progressive (graduated) rate income tax. Four states passed a flat individual income tax in 2021, after only four did over the previous 100 years. A total of 14 states have, or will soon have, a flat income tax. This is part of what has been called the "state flat tax revolution."[43] States that enact this reform will have more opportunities to increase the number of well-paid jobs, spur economic growth, and achieve other benefits that advance thriving communities. Louisiana will fall further behind if it does not start enacting major tax reforms soon.

CORPORATE INCOME TAX

Corporations and businesses operating in Louisiana, like individuals, pay income tax to the state through a progressive rate system. In 2021, the corporate income tax also had some changes. Lawmakers compressed five brackets into three, made modest cuts in the rates and eliminated some deductions. Compared with other states,[44] Louisiana has the 15th highest corporate income tax rate, making it less competitive. Two states levy neither a corporate income tax nor a gross receipts tax: South Dakota and Wyoming. Four states do not have a corporate income tax but do have a highly burdensome gross receipts tax: Nevada, Ohio, Texas, and Washington.[45]



FRANCHISE TAX

The corporate franchise tax is levied on the taxable capital of corporations, including capital stock, surplus, and undivided profits. Unlike corporate income taxes, which are levied on a business's profit, franchise taxes are imposed on a business's net worth, or wealth. Therefore, the tax tends to penalize investment[46] and requires businesses to pay the state regardless of whether they make a profit each year, or ever.[47] Lawmakers improved the franchise tax in 2021 by reducing its rate and increasing the threshold for paying the tax. Beginning in 2023, the franchise tax rate is 0.275% on all taxable capital over $300,000. Much like the personal income tax, a trigger mechanism will reduce the corporate franchise tax rate as state revenue increases. As with the personal income tax, lawmakers failed this year to use an opportunity to significantly reduce tax rates through the trigger.

Although the franchise tax makes up just 3% of the state's revenue, its costs, including substantial compliance costs, are passed along to people through higher prices, lower wages, fewer jobs available, and stifled economic growth. **Louisiana is one of only 16 states that has a franchise tax or something like it.[48] Three states, including neighboring Mississippi, are phasing out theirs, which will make Louisiana even less competitive.**

INVENTORY TAX

Inventory taxes are levied at the local level on business inventory. **Louisiana is one of only nine states that fully tax business inventory, and five states[50] have a partial tax. Like the franchise tax, the inventory tax is levied regardless of whether a business makes a profit, and it comes with a large compliance cost.** Since this is a tax charged by local governments for local government services, Louisiana attempts to limit its burden by including a refundable credit on businesses' state tax returns, which makes the corporate income tax still more complex. The refundable credit is yet another state-to-local transfer that is less transparent than direct payments. This $280 million per year of indirect transfers could be more efficiently used as a part of comprehensive tax reform.

In addition to the inventory tax, local governments tax business property, though the Industrial Tax Exemption Program (ITEP) exempts much industrial property. In 2016, changes to the program made it much less generous for certain businesses and increased local government revenues by $280 million.[49] With a decrease in business property tax exemptions, local governments can begin the process of phasing out the inventory tax. This would ease the compliance burden on business, while also making taxes more broad-based. As local governments phase out the inventory tax, the state government can phase out the tax credit, saving it $280 million annually.

SALES TAXES

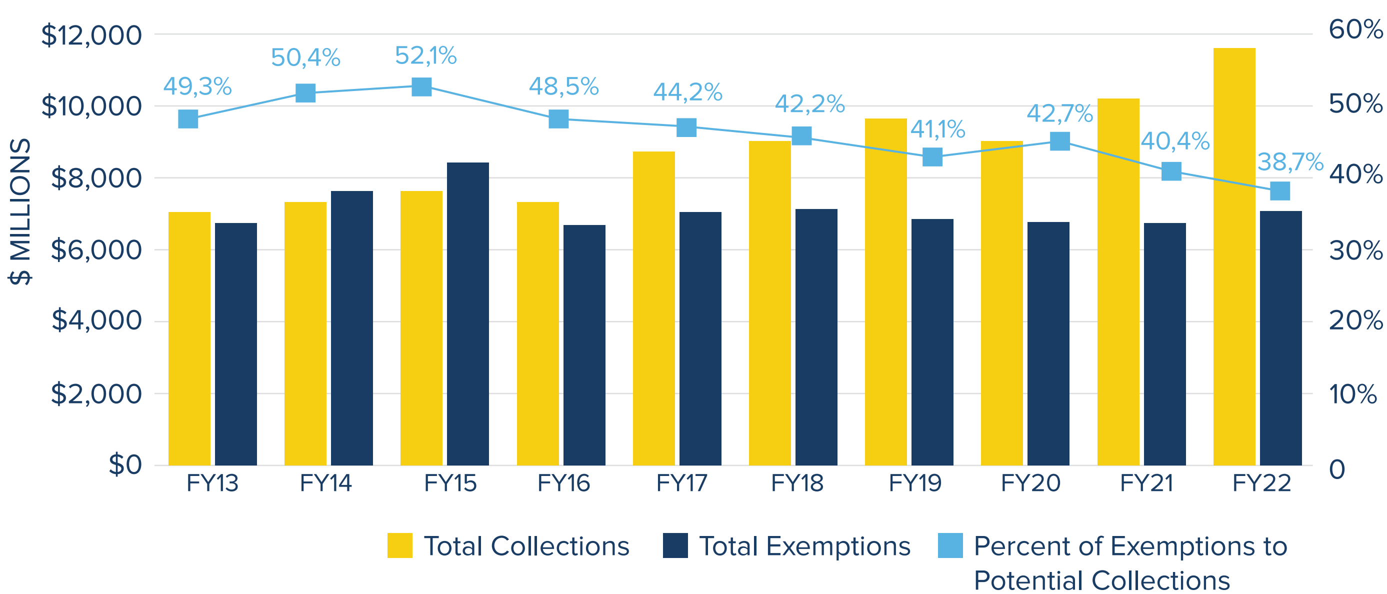
Louisiana's statewide sales tax rate is 4.45%, but with local governments imposing their own taxes at various rates, with an average of 5.1%, the statewide average is 9.55%. Louisiana's state sales tax collected $4.4 billion in 2022, which was 28% of total state revenue. The state sales tax currently includes 218 exemptions. Therefore, certain groups of businesses are exempt from paying sales tax, and certain items are not subject to it. The effect is that the sales tax rate must be higher on everything else to raise the amount of revenue needed. Tax experts generally recommend that sales taxes be "broad-based," meaning taxes should apply to most if not all final sales of goods and services, at the lowest tax rate. Instead, the Louisiana sales tax has a narrow base and a high rate.

There is still another problem with the state's sales tax laws: They are a nightmare for businesses. Each parish has its own sales tax collection authority to which a business must remit separately. This is especially frustrating for online or "remote" sellers, as they must charge the appropriate tax based on the shipping address.

COMPLEXITY

Louisiana has an incredibly complicated tax structure for both corporations and individuals. It includes numerous exemptions, exclusions, deductions, and carve-outs, called tax preferences. These benefit certain taxpayers, shifting their burden to everyone else. Louisiana's tax system, which picks winners and losers through these preferences, excludes 40% of the levy from being collected. It would be better to have lower tax rates and a flatter tax system with few exclusions and carve-outs.

Figure 7. Louisiana's Numerous Tax Preferences Cause Higher Rates for Everyone

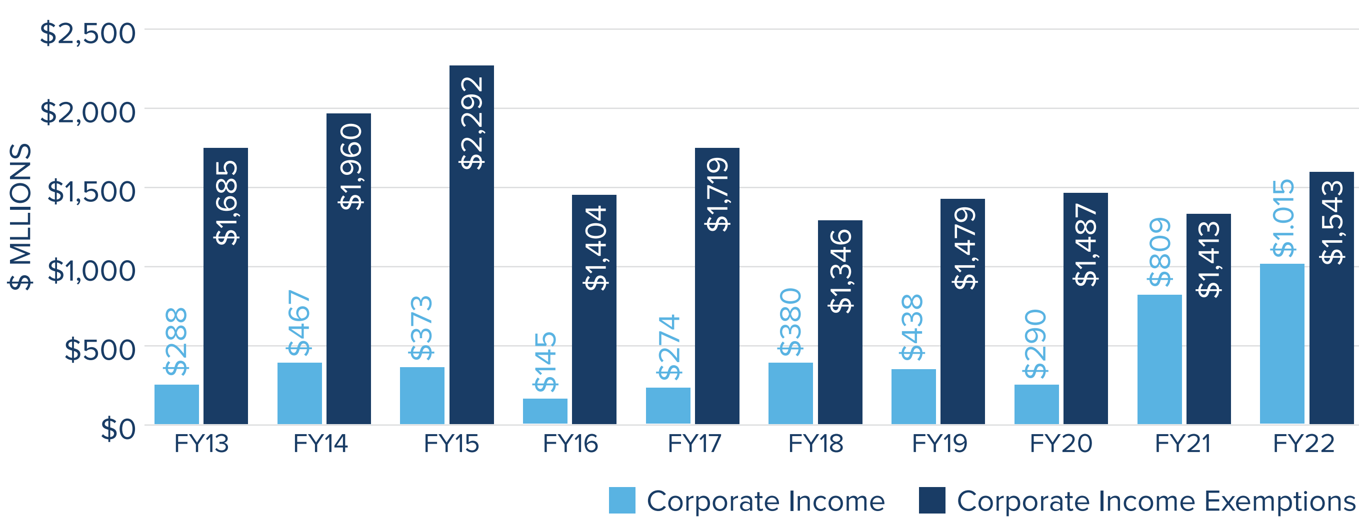


In total, the state has 555 tax preferences with a value of over $7 billion in fiscal year 2022. These special carve-outs increase the complexity of the tax structure while also allowing government to ineffectively pick winners and losers.

According to the Tax Exemption Budget[51] prepared annually by the Louisiana Department of Revenue, the individual income tax code has 95 preferences, and the sales tax code has 218. The corporate income tax code contains just 60 preferences, but businesses can also qualify for preferences in the franchise tax, as well as special tax programs for petroleum, natural resources, agriculture, and other activities. In total, the state has 555 tax preferences with a value of over $7 billion in fiscal year 2022. These special carve-outs increase the complexity of the tax structure while also allowing government to ineffectively pick winners and losers. The goal of any tax reform should include a broad base so that everyone pays a lower rate.

Corporate income tax exemptions, which are amounts of corporate income that are not taxed, far exceed the actual corporate income tax revenues collected. On average, as Figure 8 notes, 80% of the potential revenue is not collected because of numerous legal exemptions. This approach to corporate income taxes distorts the economy. Tax preferences narrow the base of taxpayers, which causes the rates to be higher for those that do pay. This is a way for government to pick the businesses that are winners and losers.

Figure 8. Corporate Income Tax Exemptions Exceed Collections



Source: Louisiana Department of Revenue Tax Exemption Budget

Path to Opportunity:
Tax Reform to Unleash Economic Growth

Reform should *repeal* the most burdensome taxes[52] as quickly as possible, but that may come at an initial decline in tax revenue, which can reduce the political will to do it. State leaders must have a vision, set the destination, and then determine how to get there in the fastest way possible. Failure to start reform cannot be an option.

Louisiana should urgently assemble the following essential pieces of the tax reform puzzle to put the state on a stronger path.

TAX REFORM PATHS WITH DYNAMIC ECONOMIC MODELING

Pelican worked with the Economic Research Center to evaluate dynamic scores for these and other proposals by using its S.T.E.L.A. model. The model considers static estimates in current dollars and uses them to forecast dynamic estimates. This means it estimates how changes to tax policy affect economic activity. In particular, the model estimates the dynamic effects from tax changes to gross domestic product[53] (GDP) in 2012 inflation-adjusted dollars. It also estimates the effects on employment, state tax revenues, personal consumption, and business investment.[54] GDP is the most widely used measure of economic activity, and in this dynamic model, it is adjusted for inflation, so it has the same purchasing power as in 2012. The model also assumes the state will continue the temporary 0.45-cent sales tax increase that is set to expire in 2025. While there will be arguments for keeping or losing this increased sales tax rate, there is reason to keep it so that there is not a more costly hike in personal income taxes without spending cuts. The model also assumes the state will make permanent the sales tax exemptions that were suspended with the 0.45-cent increase that is set to expire in 2025. This will also provide additional revenue to offset reductions in the reform of more costly income taxes, as noted in the different paths below.*

Dynamic Versus Static Scoring

The often-used static scoring approach assumes that when officials change tax laws, only revenue changes, not human behavior. But we know this static world isn't real; people always make new choices, especially when their tax liability changes. This is why dynamic scoring is essential for having a better understanding of what happens when tax policies change. Dynamic scoring[55] allows for three key insights about changes in the tax code. First, it provides a more realistic picture of how human behavior responds to incentives. Second, it gives a holistic picture of tax changes that do not occur in a vacuum. Finally, it allows for estimates of changes in tax revenues, based on changes in people's choices and increases or decreases in economic activity that result.

We evaluated multiple scenarios for eliminating, flattening, or reducing each of Louisiana's major taxes. The graphs provided in the plans show the estimated dynamic changes to major economic indicators from a "baseline" that assumes no changes in tax policy.

Here is how each model shows the effects of reform proposals:

- GDP, tax revenues, consumption, and investment numbers are reported in millions of 2012 inflation-adjusted dollars and are based on estimates in the Congressional Budget Office's February 2023 economic projections.[56]
- Employment is measured as full-time equivalent non-farm jobs, in the thousands.
- Differences from baseline results are rounded to the nearest $1 million for GDP, tax revenue, and investment. Changes in employment are rounded to the nearest thousand jobs.

The data come from Louisiana's Department of Revenue and other sources, as necessary.

This path to opportunity would provide the strongest pro-growth path forward to revolutionize the state's economy and make it an economic juggernaut. But as noted previously, this combination of policy changes could be a difficult endeavor without political will if pursued in one fell swoop. There is a viable path, however, and lawmakers must begin taking steps immediately if Louisiana is to begin catching up with neighboring states that have already begun reform efforts.

In the sections that follow, we propose two versions of this path to opportunity: the "Economic Kickstart" plan and the "Ease into Relief" plan.

*This can be a controversial issue because this sales tax rate increase is temporary and expires in fiscal year 2025. However, these models assume that this sales tax increase will be made permanent as a trade-off for greater income tax relief. A lower income tax will provide more economic growth than a lower sales tax. Should lawmakers decide that the temporary sales tax must expire anyway, the tax plan put forth here would be another $430 million in less tax revenue collections, or the flat rate must be higher, giving tax relief to fewer families.

Path Number One:
The “Economic Kickstart” Plan

As other states have demonstrated, flatter, simpler tax structures reduce complexity, reduce the burden of taxation, and make it easier for entrepreneurs and individuals to know what they owe. This leads to greater economic growth, more well-paid jobs, higher net in-migration, and other benefits that help families and communities thrive.

Given Louisiana’s burdensome, complicated tax structure of progressive personal and corporate income taxes, along with a corporate franchise tax, flattening the tax code is key. Tax reform must, however, be accompanied by slowing the growth of government through spending restraint. Only then can Louisiana avoid the problems Kansas experienced when it cut taxes but not spending. The first and most important step is to strengthen the state’s current spending limit, which covers only a portion of the budget because of arbitrary exclusions. The limit, which uses a highly volatile measure of personal income growth, must be replaced with a clear base of state funds and a more stable growth limit, using the rate of population growth plus inflation.

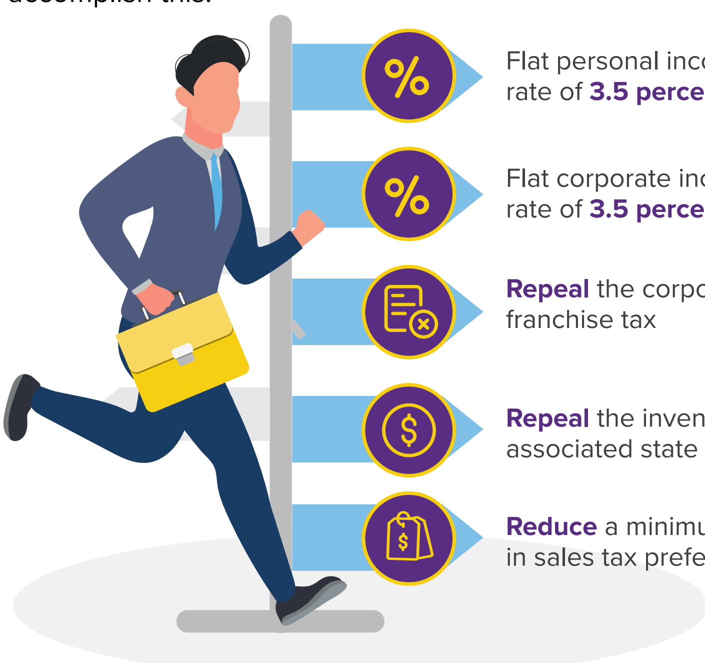
The path to kickstart robust tax reform in Louisiana is to:

1. **Flatten income taxes**
2. **Buy down rates**
3. **Eliminate income tax(es)**

Here is what is involved in each step.

STEP ONE: FLATTEN INCOME TAX RATE

A good start toward increasing competitiveness with other states and kickstart economic growth would be to flatten each of Louisiana’s two income taxes—personal and corporate—to one rate. Eliminating the most burdensome business taxes should also be a goal. The following should be enacted to accomplish this:



- Flat personal income tax rate of **3.5 percent**
- Flat corporate income tax rate of **3.5 percent**
- **Repeal** the corporate franchise tax
- **Repeal** the inventory tax and its associated state tax credit
- **Reduce** a minimum of $200 million in sales tax preferences

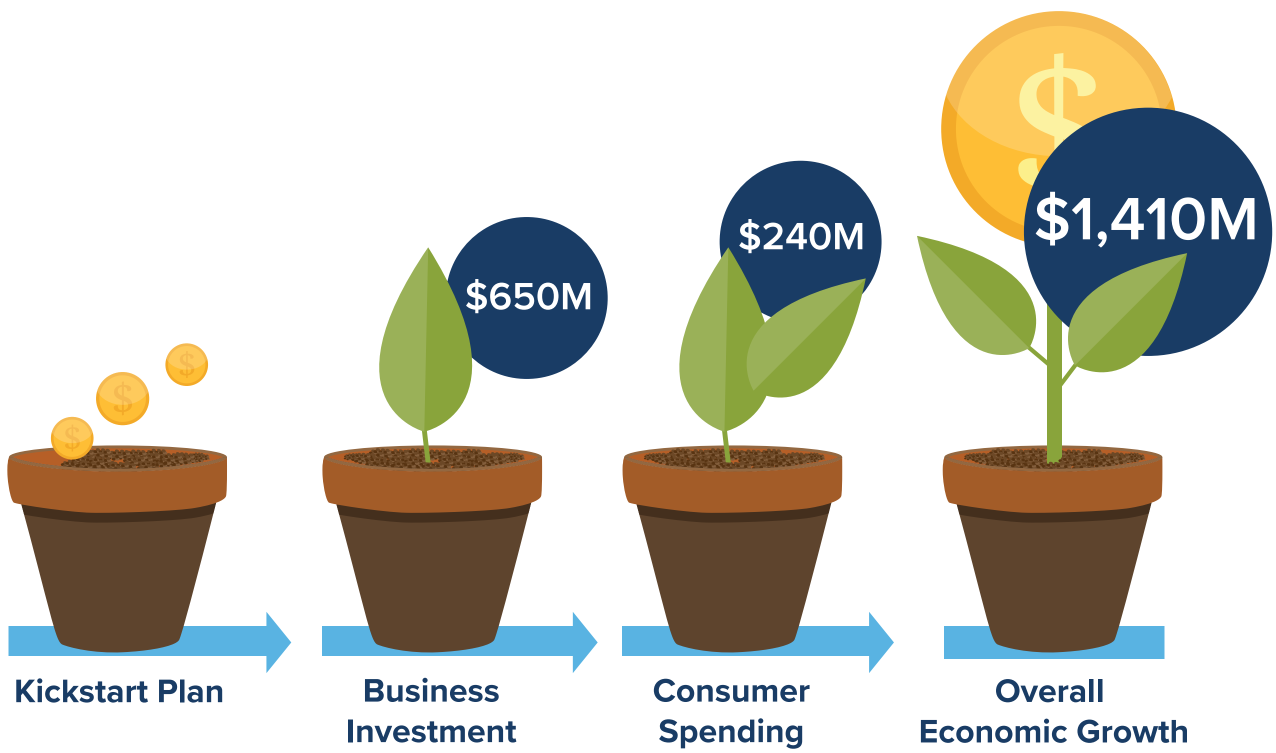
This option with the greatest economic benefits is modeled first, and it recommends lawmakers do the following:

- Flatten the personal income tax to one rate of 3.5% (at most), with a standard deduction of $12,500 for single filers and $25,000 for married filers, so no one gets a tax increase.
- Flatten the corporate income tax to one rate of, at most, 3.5%.
- Eliminate the corporate franchise tax to support increased business investment and growth. Revenue collected from this tax is currently deposited into the Revenue Stabilization Fund, and therefore eliminating this tax has no effect on the state general fund budget.
- Work with local governments to eliminate or phase out the inventory tax now that recent changes to ITEP (Industrial Tax Exemption Program) have enhanced local government revenues. Policymakers should phase out the state credit for this tax.
- Broaden the bases of the personal income tax, corporate income tax, and sales tax by reducing and eliminating tax preferences. Doing so lessens the complexity of the tax system while also offsetting some of the initial revenue loss created by reducing tax rates. In addition, centralizing sales tax collection into one administrator, as most states have done, will ease the immense burden small businesses face by having to remit their tax payments to various local entities across the state.

Measuring the Plan's Success in Year One

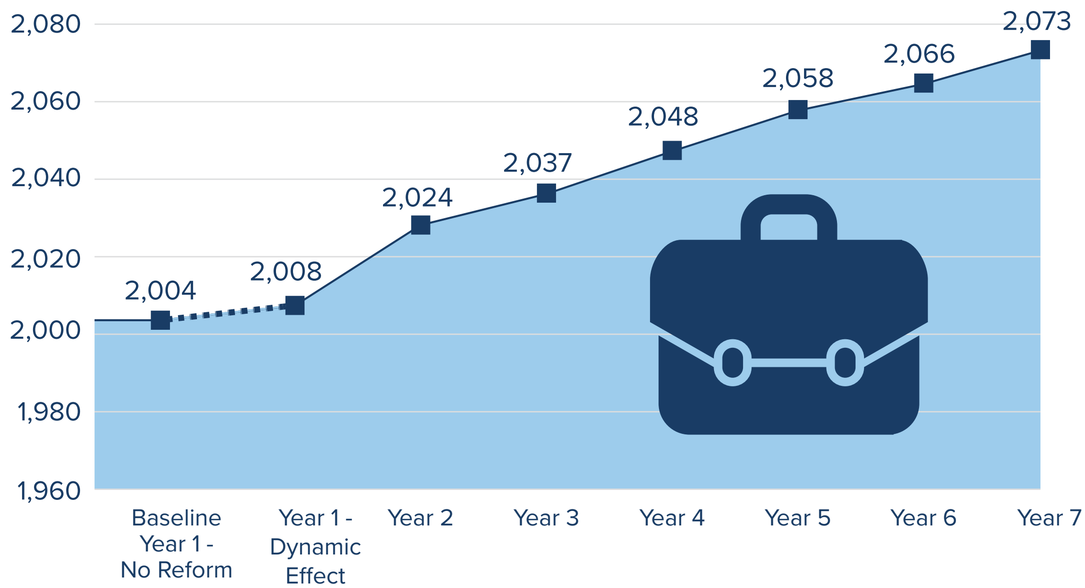
The Kickstart plan would boost each of Louisiana's primary economic indicators in its first year. Economic output, measured by GDP, would increase by $1.41 billion, with investment and consumer spending rising by $650 million and $240 million, respectively, as measured in constant 2012 dollars.

Figure 9. Growing Success: Year One of the Kickstart Plan ($ Millions)



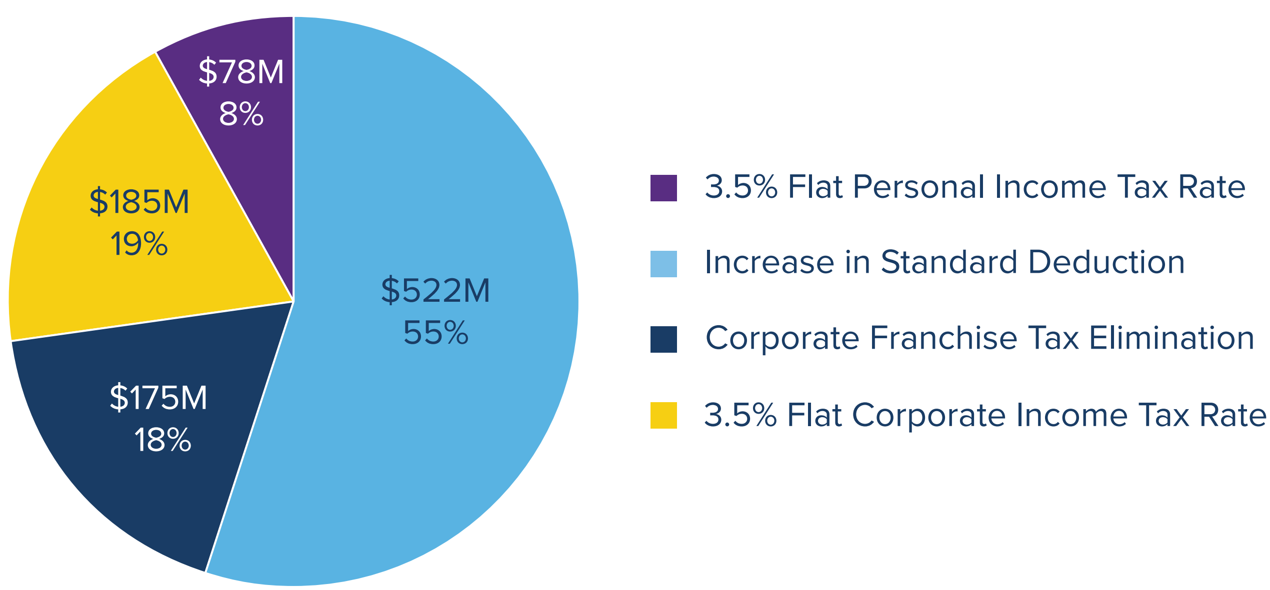
There will be an additional 4,000 jobs available in just the first year of the Kickstart plan, with jobs continuing to grow exponentially in subsequent years, even with no further tax reform.

Figure 10. The Kickstart Plan Improves Employment Compared with the Status Quo in Year 1 and Thereafter (Thousands of Jobs)



The modeling shows an initial reduction in tax collections of $960 million, based on an extremely conservative estimate. The largest part of this comes from reforming the state's personal income tax and is primarily due to the increased standard deduction. This increase is recommended to avoid a tax increase on those earning less than $12,499 (or $25,000 if married filing jointly) and currently paying taxes in the 1.85% bracket. People currently in this lower income bracket would no longer pay any income tax under the Kickstart Plan.

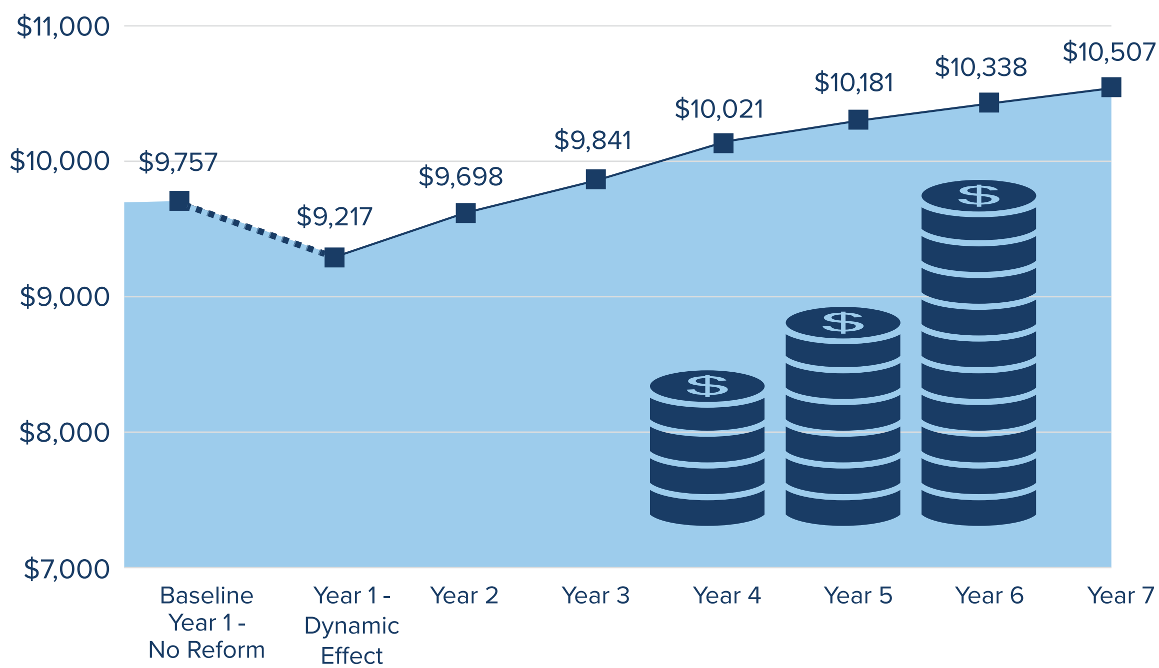
Figure 11. Breakdown of the Tax Revenue Reduction in Year One ($Millions)



Much of this reduction can be covered through eliminating the local inventory tax and its associated state income tax credit. This would lessen the tax revenue reduction by approximately $280 million, for a net revenue reduction of $680 million. The portion of the reduction that comes from flattening the corporate income tax and eliminating the franchise tax will not affect the state's general fund, or the state budget. Over the last three years, these tax collections have vastly exceeded the historical average of $600 million per year. All revenues collected from these two sources over $600 million are automatically deposited into the Revenue Stabilization Fund. The net effect of the Kickstart plan on the state's general fund, and the state budget, will be less than $500 million.

Figure 12 shows this net reduction in revenue for year one. Thanks to the immediate positive effects on the economy, however, collections begin to recover quickly, almost returning to the baseline level based on the static model in year two and exceeding it in year three.

Figure 12. The Kickstart Plan Supports Increasing Tax Revenue Over Time ($ Millions)

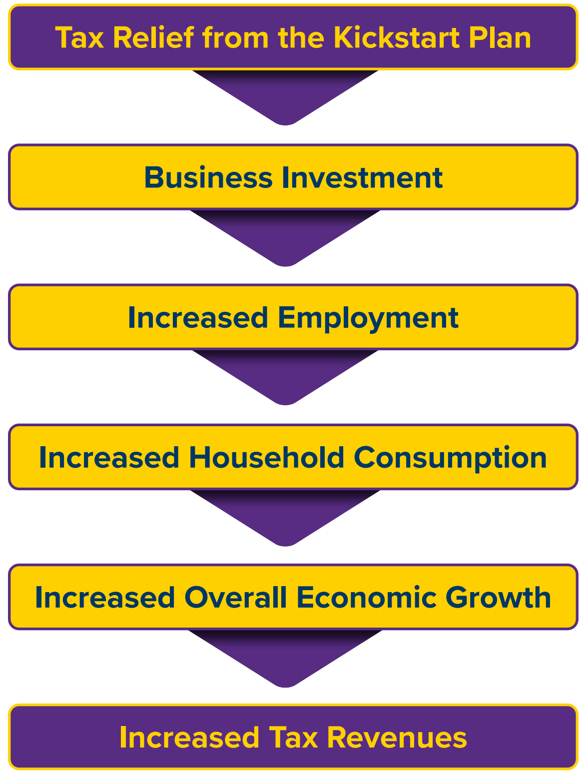


The economic growth that results from individuals and businesses having control over more of their own money kickstarts the economy that leads to greater tax revenues in the long term.

Revenue reductions can be further mitigated through further structural reform by taking the following steps:

- Eliminate even more than the $200 million in sales tax exemptions as suggested in this model.
- Broaden the sales tax base to include additional services.
- Eliminate, phase out, or reduce corporate income tax preferences to mitigate the cost of the flat corporate income tax. This will help reduce complexity and administrative burden on business. Lawmakers should begin with preferences that have the lowest return on investment for the state.
- Enact a stronger spending limit—this is essential. The limit should be based on the prior three-year rate of population growth plus inflation, which will help smooth out annual fluctuations. The resulting excess revenue should be used for the initial tax reform then buy the income tax rates down over time.

Tax relief, when combined with spending restraint, temporarily reduces government revenues. But the economic growth that results from individuals and businesses having control over more of their own money kickstarts economic growth that leads to greater tax revenues in the long term.



STEP TWO: BUY DOWN INCOME TAX RATES

If spending is restrained by a stronger limit, there is an opportunity to buy down tax rates when tax collections grow faster than the rate of population growth plus inflation. From 2013 to 2022, the revenue collected for the state's general fund increased by an annual average of 5.9%, and the average three-year rate of population growth plus inflation was 2.2%. This 3.7-percentage- point surplus of tax revenue above spending allows for excess revenue to buy down tax rates over time.

STEP THREE: ELIMINATE INCOME TAXES

Personal income tax collections can be bought down each year through spending restraint, until they are eliminated by 2030. This can be done by using at least 50% of both the excess and surplus* state general funds each year to buy down rates over time. This can be done simply by limiting the growth of spending increases, not cutting spending itself. Table 2 shows it will take ten years to eliminate the personal income tax using surplus and excess funds to buy down the flat income tax rate from 3.5%.

*Surplus funds are funds remaining after the end of the fiscal year is closed and all expenditures are accounted for. There are restrictions on the use of these funds. The state has excess funds when the Revenue Estimating Conference recognizes that additional money is collected in the current fiscal year above the amounts that are already appropriated. There are no restrictions on the expenditure of these funds.

Table 2. A 10-Year Plan to Eliminate the Personal Income Tax Using the Buy Down Method ($ Millions)

	2023 Actual	2024 Forecast	2025	2026	2027	2028	2029	2030
SGF Revenue (+5.9% Average from 2013-2022)	11,963	13,027	13,795	14,610	15,472	16,385	17,652	18,377
SGF Spending (+2.2% Pop+Inf)	10,866	11,100	11,341	11,587	11,838	12,094	12,356	12,623
50% of SGF Surplus Available for Tax Cuts (+3.7%)		963.1	745	657	634	646	675	716
PIT (+6.7%)	4,510	3,118	2,580	2,094	1,600	1,061	456	0

This is a conservative estimate, as there may be many changes in tax revenue collections and other unknown factors. But it shows that when policymakers exercise fiscal restraint, more surplus funds will be available for tax cuts. The reductions will support increased economic growth, which means more tax collections that officials can use to put these taxes on an even faster path to elimination.

Louisiana can eliminate its personal income tax if it combines disciplined spending restraint with a buydown. This will leave a broad-based sales tax as the primary source of state revenue, though many other sources will remain. The Kickstart Plan only eliminates two of the eight main tax revenue sources shown in Figure 3. There are still many sources in the "other" category. Eliminating the personal income tax will provide an extraordinary opportunity for Louisiana to compete with other states, including its immediate neighbors. More people will be able to move out of poverty and off safety net programs into meaningful work, and significantly increase their well-being.

Figure 13 summarizes the findings from the dynamic model and Figure 14 shows how employment would grow from doing this over time, which is well above static growth from the status quo.

Figure 13. Economic Activity Increases Substantially over Time When the Personal Income Tax is Flattened in Year 1 then Bought Down with Surplus Funds over Time ($ Millions)

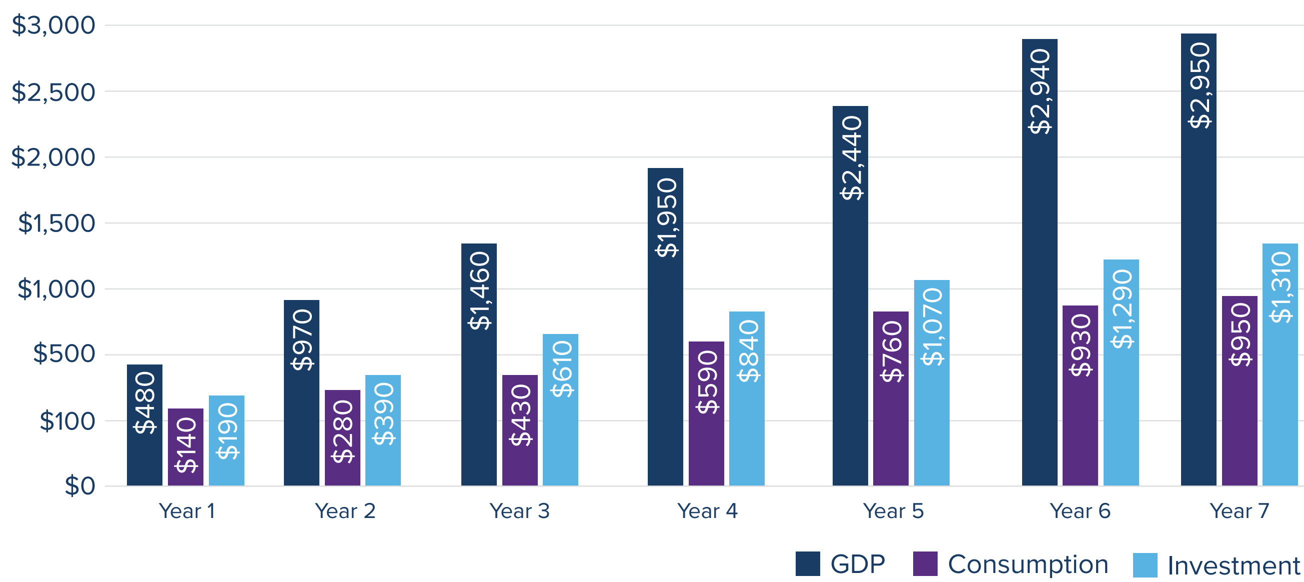
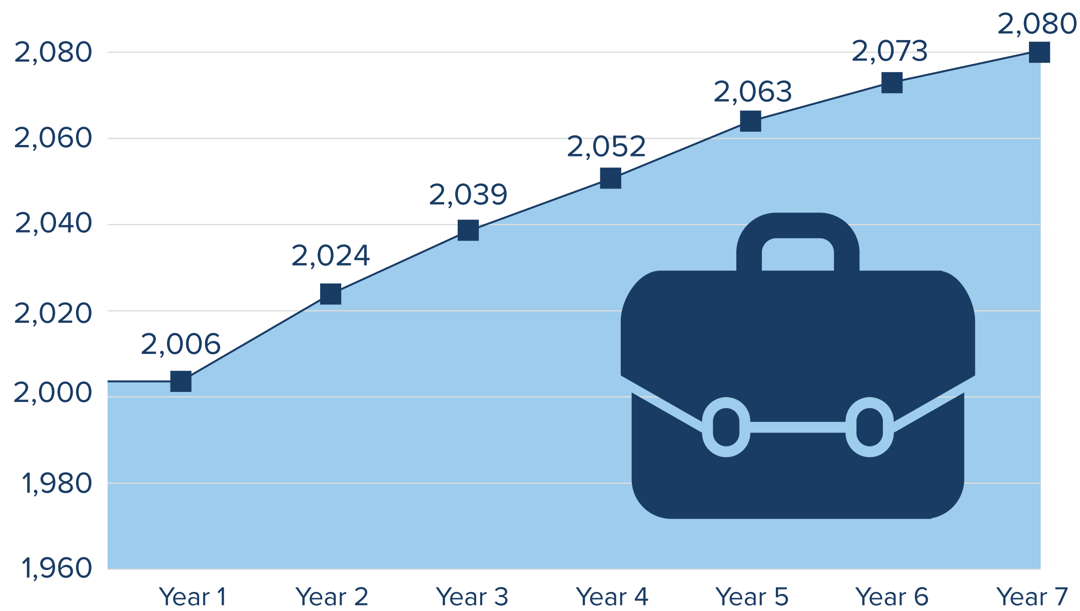


Figure 14. Employment Would Increase from Buying Down Personal Income Taxes over Time Compared with the Status Quo (In Thousands of Jobs)



Once the tax is fully eliminated by year 7, GDP will grow by $3 billion per year, and consumption and investment will increase by $950 million and $1.3 billion, respectively. The model shows a substantial increase in economic activity over time, which will contribute to tax revenues. In addition, restraining spending with a strong limit will create a surplus that can be used to offset revenue lost from eliminating the tax. This approach will make the state more competitive with its neighbors.

We also modeled the elimination of the corporate income tax, though it is not part of our primary recommendation. By using the same buydown approach, the state could eliminate that tax, too, taking only two years longer than it would take to eliminate the personal income tax. But this could come even faster if the state phases out the personal and corporate income tax preferences that would not be necessary once there were no income taxes.

By taking these important steps, Louisiana's state government officials can more effectively provide limited government.

FINAL DESTINATION (ULTIMATE GOAL): COMPREHENSIVE TAX REFORM

With respect to spending and taxation, state leaders must pursue the following goals if they wish to relieve the burdens state residents and businesses face:

- Eliminate personal income taxes.
- Flatten corporate income taxes to the lowest possible rate.
- Eliminate corporate franchise taxes.
- Eliminate the inventory tax and associated tax credit.
- Broaden the sales tax base, all while limiting government spending to ensure that these reforms are sustainable.

Path Number Two:
The “Ease into Tax Relief” Plan

Though the Kickstart plan would be the best path to take, there may not be the political will to pursue it. Given this, we have considered piecemeal scenarios to get us to the same destination. It is important to note, though, that stretching out the changes over time will also diminish the initial economic benefits and therefore reduce the competitiveness and prosperity of the state.

This path uses the components of the Kickstart plan but eases the state into relief by implementing one component at a time. As with the Kickstart plan, this plan’s success hinges on spending restraint at each step. Using a stronger, more effective expenditure limit to slow spending growth helps mitigate the downward pressure on tax revenues at each stage.

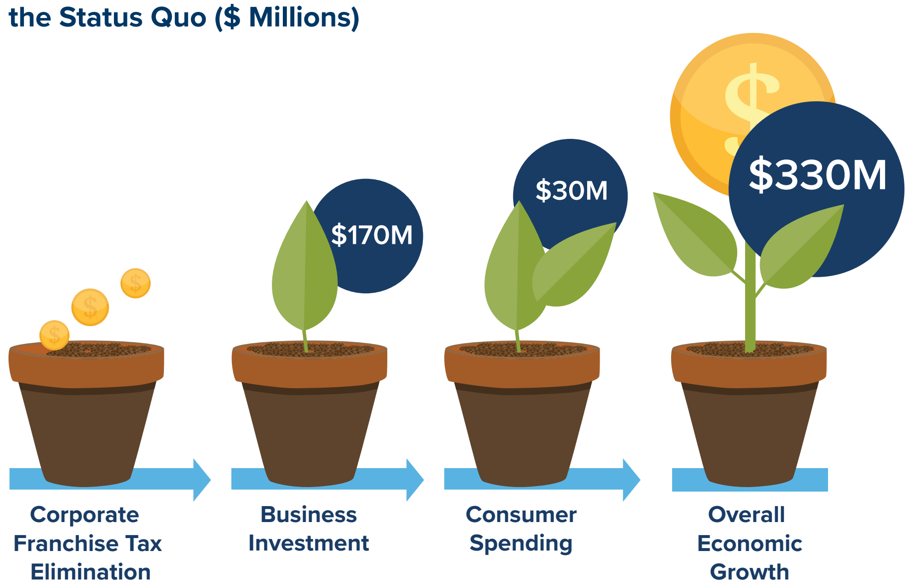
The Ease into Relief plan consists of the following steps:

1. Eliminate corporate franchise tax.
2. Flatten the personal income tax and broaden the sales tax base.
3. Flatten the corporate income tax.
4. Buy down tax rates.
5. Eliminate personal income taxes, with the possibility of eliminating corporate income taxes.

STEP ONE: ELIMINATE THE CORPORATE FRANCHISE TAX

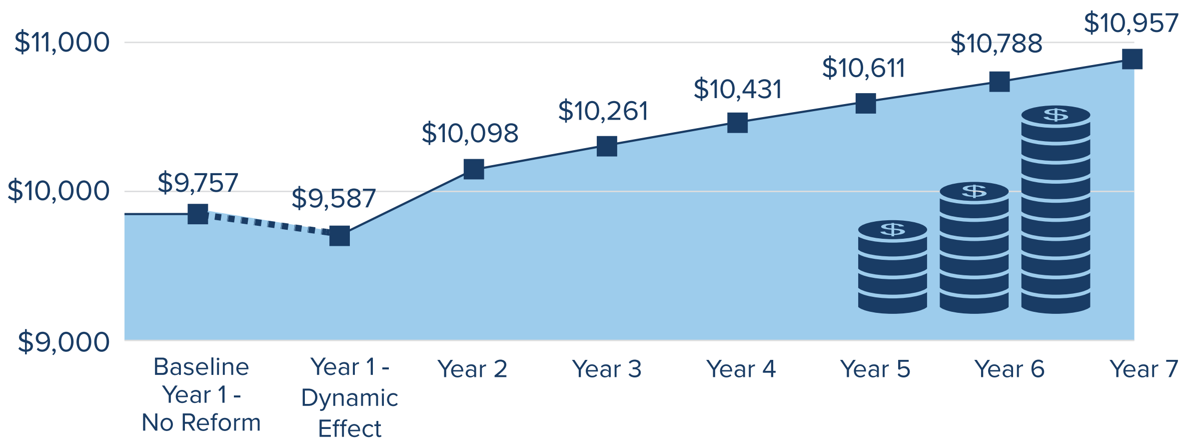
The corporate franchise tax is one of the most burdensome business taxes, which is why we recommend its elimination first. As shown in Figure 15, eliminating this tax would bring benefits even in the first year: $330 million in more GDP, at least 1,000 more jobs, $30 million in more consumption, and $170 million in more business investment.

Figure 15. Eliminating the Corporate Franchise Tax Would Support More Economic Activity in Year 1 Compared with the Status Quo ($ Millions)



These are conservative estimates. Figure 16 shows how this increased economic activity would support increased tax revenue, with more people working and paying taxes through increased personal income and sales taxes, along with businesses paying more in corporate income taxes.

Figure 16. Eliminating the Corporate Franchise Tax Would Support Increased Tax Revenue over Time ($ Millions)



Because of this tax's limited effect on the state general fund, eliminating it is an easy first step, with a big return on investment. It also allows for time to implement a stronger, more effective expenditure limit to reduce the growth of government spending, which will mitigate the revenue effects of the next steps of the Ease into Relief plan.

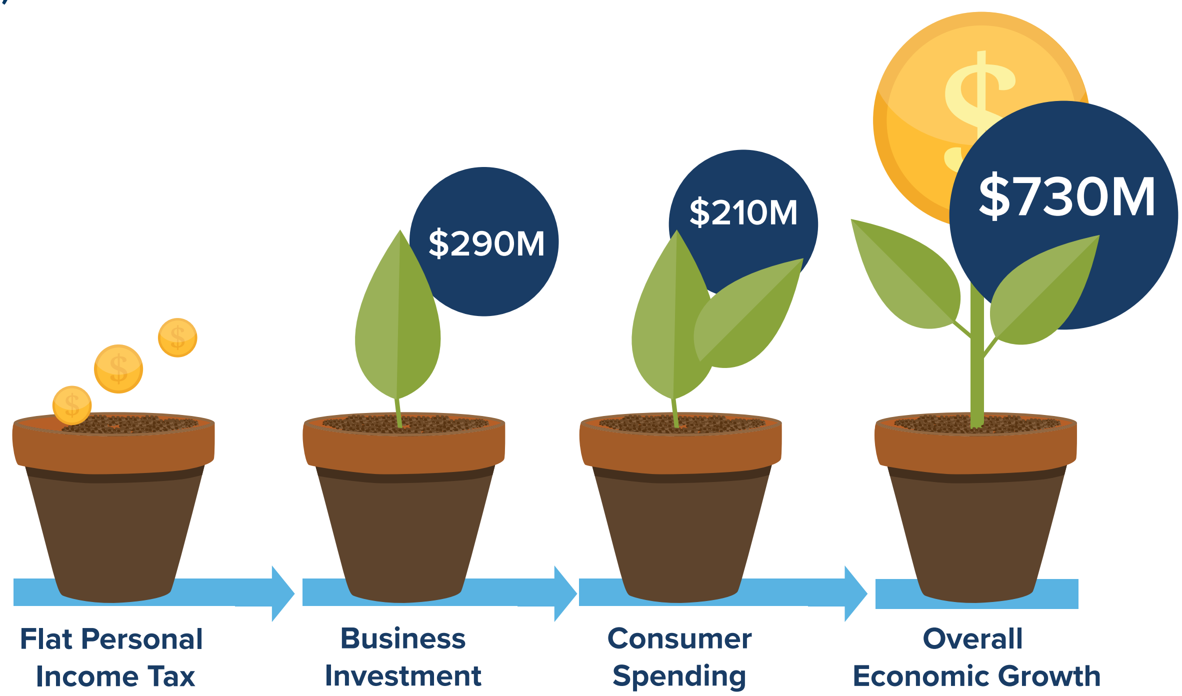
Eliminating the franchise tax would, in a static analysis, reduce tax revenues by $211 million. But other tax collections would increase, as the dynamic effects happen, leading to a net tax revenue reduction of $170 million. The benefit of increased economic activity would continue over time, with increased revenues in year two. This would be an extraordinary boost to economic growth and job creation that would be well-received by Louisianans. It must be at the top of any tax reform plan. It must be noted that in the last three fiscal years, the combination of corporate income tax and franchise tax revenue has vastly exceeded the historical average of $600 million, with anything above that amount automatically deposited into the Revenue Stabilization Fund. The decrease in revenues that comes from eliminating the corporate franchise tax will not affect the state general fund, and therefore will have no impact on the budget. Additionally, revenue effects can be further mitigated by reducing the accompanying tax preferences.

STEP TWO: FLATTEN THE PERSONAL INCOME TAX

Step two of the Ease into Relief plan is to flatten the progressive personal income tax down to one rate of 3.5% with higher standard deductions. This must be implemented in year two. The standard deduction would be $12,500 for single filers and $25,000 for joint filers, meaning no one would face a tax increase.

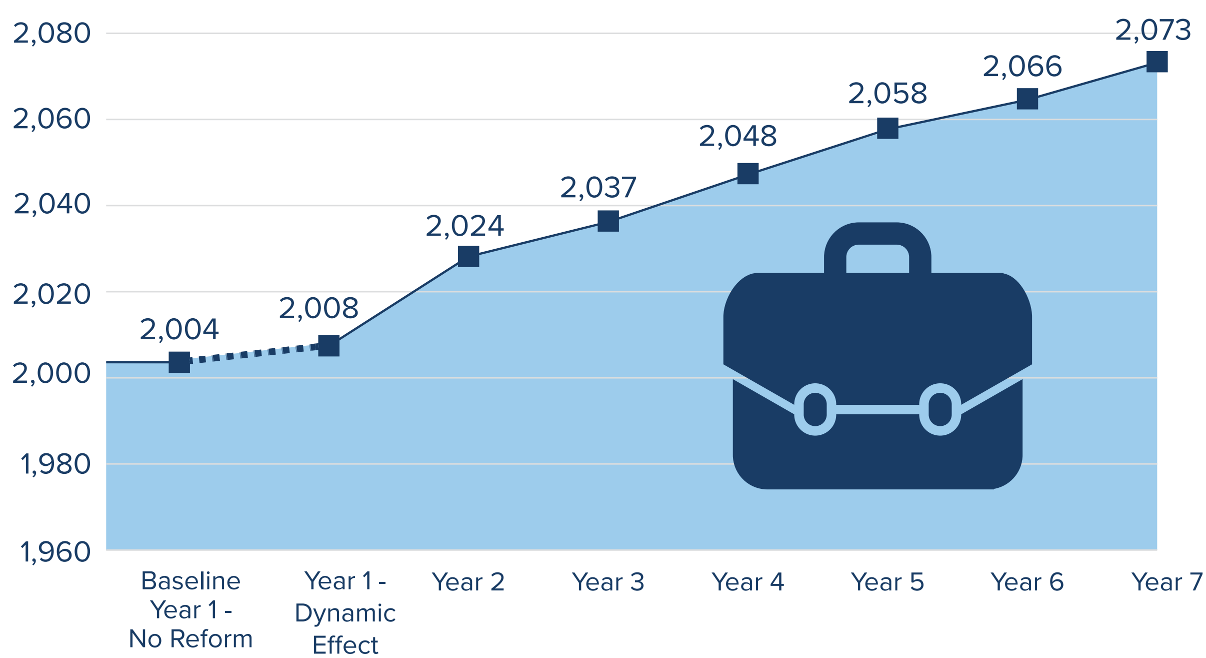
The economic effects of a flat 3.5% personal income tax rate would increase GDP by $730 million (2012 dollars) in year one, with investment and consumer spending rising by $290 million and $210 million, respectively.

Figure 17. **Economic Activity Would Increase in Year 1 from Moving to a Flat-Rate Personal Income Tax ($ Millions)**



The number of jobs in year one would increase by 3,000. As the economy continues to expand, the number of jobs would increase even more over time.

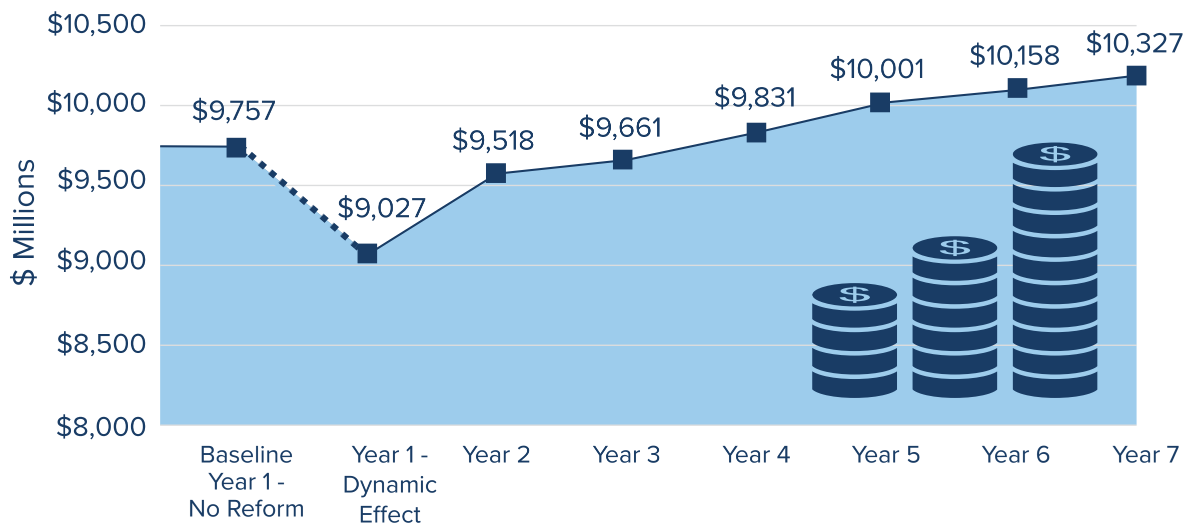
Figure 18. **Employment Would Increase Over Time After Having a Flat-Rate Personal Income Tax (Thousands of Jobs)**



A flat personal income tax rate would result in a static decrease of $932 million in tax revenue in year one. This is based on revenue projections from the Legislative Fiscal Office[57] that appear to have been based a large increase in personal income tax collections for just one year of data in fiscal year 2022.[58] These abnormally high collections resulting from a post-lockdown consumption boom is likely unsustainable, given economic trends. But to be more aligned with projections from the Louisiana Department of Revenue, we have adjusted the model's assumptions to reflect current economic trends.

Given these increases in employment, tax revenue would decline by just $730 million instead of the full $932 million under static scoring. As noted previously, **87% of the revenue decrease would come from raising the standard deduction,** which would be needed to avoid a tax increase on single filers earning less than $12,499, or joint filers earning less than $25,000. **Those paying taxes in the 1.85% income bracket would no longer pay any income tax.** In sum, only 13% of the revenue reduction associated with reforming the personal income tax would come from reducing the top rate from 4.25% to 3.5%.

Figure 19. Tax Revenue Would Decline Initially but Would Increase Thereafter from Flattening the Personal Income Tax ($ Millions)



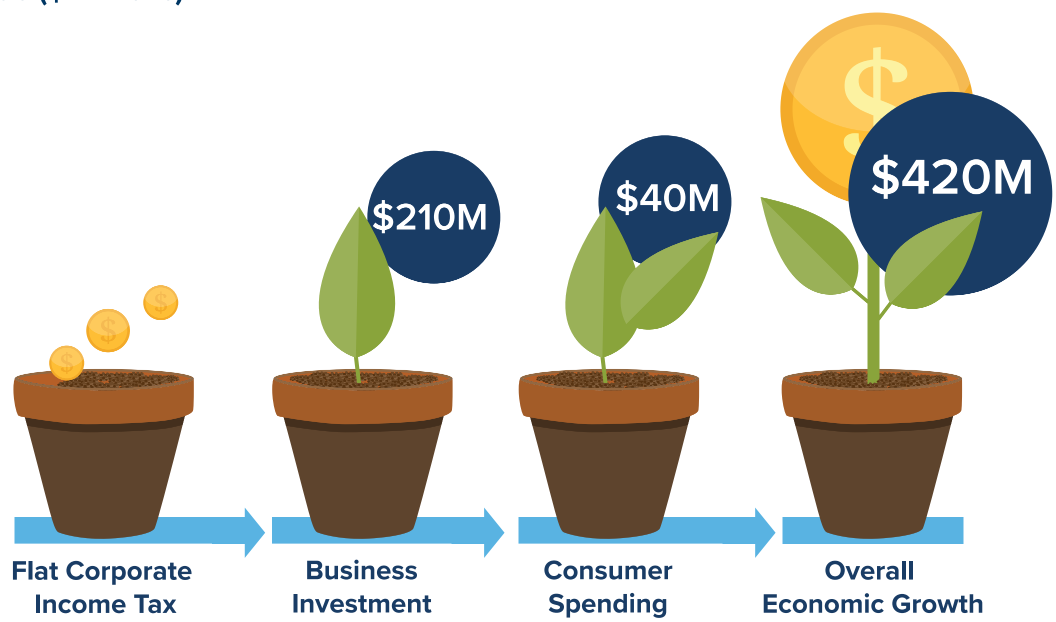
While these reforms bring a significant decrease in tax revenue in year one, revenue begins to bounce back rather quickly in year two and surpasses the baseline level by year four. The revenue reduction can be mitigated through repealing the inventory tax and its associated state tax credit. This would offset the revenue reduction by approximately $280 million, making it just $450 million in the first year. Once again, spending restraint is necessary to further mitigate the burden of revenue reduction. The tax revenue recovery under Ease into Relief is not that different than the revenue recovery in the Kickstart plan. When it comes to the personal income tax, enacting the Kickstart plan is better for Louisiana than slow-walking tax reform through the Ease into Relief plan. The Kickstart plan provides twice as much new growth in economic output and two times as many jobs, and it does so much more quickly, without much more in an initial decrease in tax revenue.

STEP THREE: FLATTEN THE CORPORATE INCOME TAX

Louisiana currently has a progressive corporate income tax system. The next step is to flatten this tax to 3.5% after revenue recovers from the flattening of the personal income tax.

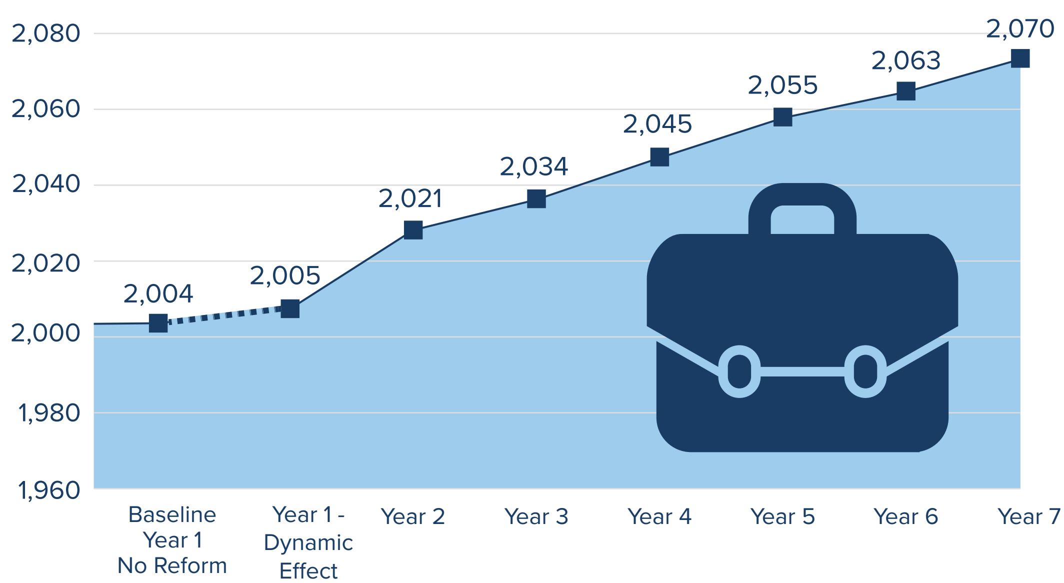
The economic effects of enacting a flat corporate income tax rate include economic output (GDP) increasing by $420 million (2012 dollars) in 2024, with investment and consumer spending rising by $210 million and $40 million, respectively.

Figure 20. Economic Activity Would Increase from Flattening the Corporate Income Tax Compared with the Status Quo ($ Millions)



The number of jobs would be expected to increase by 1,000 in year one. These results only further demonstrate the beneficial cascading effects on employment that come from reducing taxes on capital.

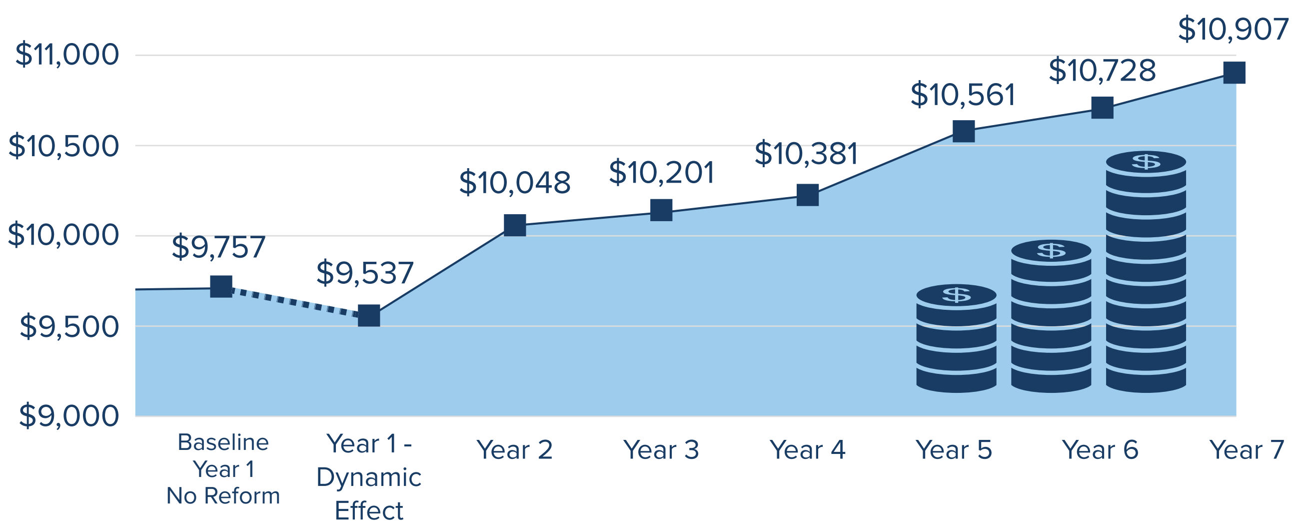
Figure 21. Employment Would Increase over Time After Flattening the Corporate Income Tax (Thousands of Jobs)



The dynamic modeling shows a $220 million tax revenue decrease in year one.

The Legislative Fiscal Office has published fiscal notes in the past that reflected higher static revenue reductions for similar flat corporate income tax plans.[59] Those notes reflect abnormally high revenue collections in fiscal year 2022 of $1.1 billion, well above the average of $568 million of the previous four years. Forecasters do not predict this level of revenue to continue.[60] The previous three years of revenue data were incorporated into the models to determine a static decrease of $315.3 million in tax revenue in year one, whereas the dynamic model shows just a $220 million decrease. As Figure 22 shows, the revenue quickly recovers from the increase in economic activity and surpasses the loss predicted by the static estimate in year two.

Figure 22. Tax Revenue Would Increase in Year 2 After the Corporate Income Tax is Flattened ($ Millions)



It is also important to note that this model does not assume the state will reduce corporate tax preferences. Reducing or eliminating many preferences would mitigate revenue reduction. As is the case with eliminating the corporate franchise tax, moving to a flat corporate income tax rate will likely not affect the state general fund or the state budget. Since lawmakers changed the corporate income tax in 2016 and in 2021, these revenues have increased dramatically above the historical average of $600 million. The state is constitutionally required to automatically deposit all revenue above $600 million in the Revenue Stabilization Fund.

STEP 4: BUY DOWN

The Kickstart plan rips off the band-aid and jolts the economy into action. In contrast, the state needs longer under the Ease into Relief plan to buy down the tax rates. It would need one year to recover the tax revenue reduction that would come from eliminating the franchise tax. It would need three years to recover the tax revenue reduction of flattening the personal income tax, and an additional year, for doing the same with the corporate income tax.

The Ease into Relief plan relies on reforms to three taxes: the corporate franchise tax, personal income tax, and corporate income tax. It is important to keep in mind that they do not build upon each other. They were each modeled separately to be considered individually, and the economic benefits and less reduction in tax revenues will be magnified as each step builds on each other.

Also, unlike the Kickstart plan, the Ease into Relief plan will not reach the buydown step for five years. But the buydown will work the same in either plan. A stronger expenditure limit will create surplus funds that can buy down flat tax rates until they reach zero for the personal income tax, and the lowest possible rate for the corporate income tax, which is preferably zero.

STEP 5: ELIMINATE TAXES

The elimination step of the Ease into Relief plan works just as it does in the Kickstart plan, but again, on a longer timeline.

Conclusion

Louisiana has so much going for it, but the failures of government—namely, bad fiscal policy—keep Louisianans from reaching their full potential and prevent the state from being competitive. This must change, and state leaders must act with urgency to set Louisiana on a more responsible path. By taking these important steps, Louisiana's state government leaders can more effectively carry out their duties to meet critical short- and long-term needs and demonstrate good stewardship of taxpayer dollars.

By enacting substantial, pro-growth tax reform, Louisiana will soon have the comeback we all want, without exacerbating current significant challenges. This comeback will offer more reasons for businesses and individuals to move to Louisiana and stay here. There will be more opportunities to get out of poverty and develop long-term self-sufficiency, with many long-term economic and social benefits we have not modeled or discussed in detail.

Table 3 compares the dynamic effects of each plan above baseline growth, as outlined in this paper.

Table 3: Pelican's Two Tax Reform Proposals Compared: Their Dynamic Effects on Key Economic Indicators

Models	Year of Plan	GDP	Employment	Investment	Consumption
1. Kickstart Plan					
	1	$1,410 M	4 K	$650 M	$240 M
	5	$1,440 M	4 K	$750 M	$290 M
2. Ease Plan					
a. Eliminate CFT	1	$330 M	1 K	$170 M	$30 M
	5	$340 M	1 K	$190 M	$40 M
b. Flat PIT 3.5%	1	$730 M	3 K	$290 M	$210 M
	5	$750 M	3 K	$330 M	$240 M
c. Flat CIT 3.5%	1	$420 M	1 K	$210 M	$40 M
	5	$430 M	1 K	$250M	$50 M

Clearly, the best model to achieve the most economic growth and opportunity is the Kickstart plan. While this involves a relatively large initial reduction in tax revenue, the economy does not grow by tax-funded government spending. Therefore, there must be a push to slow spending growth and unleash the people's economic potential. Having more well-paid jobs—brought into being, in part, by this plan—will reduce the number of state residents enrolled in safety net programs, thereby giving those recipients more long-term self-sufficiency while also reducing government spending.

Louisiana can demonstrate a bold, thoughtful, and comprehensive path forward. Other states will be able to see what happens when policymakers enact a combination of prudent fiscal policies—flatter taxes, lower rates, broader bases, and, most importantly, spending restraint with a strong spending limit. This is how Louisiana will achieve an economic comeback and how Louisianans will flourish. The time for bold reform is now.

Authors

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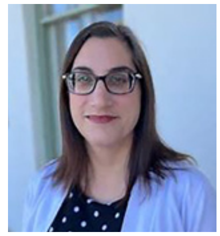
Vance Ginn, Ph.D., is an accomplished economist who finds free-market solutions that let people prosper. He is chief economist at Pelican Institute for Public Policy, founder and president of Ginn Economic Consulting, and senior fellow at multiple national and state think tanks. In these roles, Ginn provides high-quality economic research and trusted insights on how to affect positive change at the federal, state, and local levels.

He previously served as the associate director for economic policy ("chief economist") of the White House's Office of Management and Budget, 2019-20. Ginn is the former chief economist at Texas Public Policy Foundation and policy director for TPPF's Alliance for Opportunity campaign, a multi-state poverty relief initiative, where he fought and won many free-market reforms during multiple legislative sessions. He has taught several economic courses at institutions of higher education, including Sam Houston State University and Texas Tech University, where he won a teaching award.

Ginn has appeared on leading national and state news shows, such as "America Reports" on Fox News and "Cavuto: Coast to Coast" on Fox Business. His commentaries have been published in The Wall Street Journal, Fox News, Washington Post, National Review, and other national and state publications.

Ginn earned his Ph.D. in economics at Texas Tech University. He graduated from home school in South Houston, Texas, resides in Round Rock, Texas with his wife and three kids, and is a drummer who played for a top rock band in Houston, Texas.



Jamie Tairov, SENIOR POLICY ASSOCIATE

Jamie Tairov serves as Pelican's senior policy associate with a focus on state fiscal issues. Prior to joining Pelican, she worked at Louisiana State University and A&M College (LSU) and then transitioned to the Fiscal Division of the House of Representatives where she supported lawmakers and the public as a budget analyst. She was responsible for analyzing the state's budget for Public Safety and Corrections, Higher Education, and the Judicial branch, just to name a few. Jamie also staffed legislative committees, helped legislators draft amendments to bills, and evaluate executive agency and judicial branch programs.

In her role at Pelican, Jamie also supports important reforms in the areas of taxation, workforce development and social safety net programs, criminal justice, and occupational licensure. She recommends reforms to these policy areas by not only evaluating Louisiana's laws, regulations, and programs, but also researching other state policies, identifying national best practices, and collaborating with partners to advance effective free market solutions. Jamie led Pelican's effort to publish a comprehensive Citizens Guide to the Louisiana Budget that was released in the spring of 2023.

Jamie is a native of South Louisiana, born and raised in Baton Rouge. While raising her two children, she received her Bachelor of Science in Agricultural Economics and Agribusiness and went on to complete a master's degree in public administration, both from LSU. She lives in Baton Rouge with her husband and many fur babies and spends all of her spare time doting on her grandson.

Endnotes

1 https://www.eia.gov/tools/faqs/faq.php?id=46&t=8
2 https://taxfoundation.org/publications/facts-and-figures/
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