# FISCAL REFORM TO Write Louisiana's Comeback


PELICAN INSTITUTE FOR PUBLIC POLICY

# Introduction

For too long, poor public policies have held Louisiana back, forcing families to watch loved ones leave for better opportunities elsewhere. But with assets like top ports, a booming natural gas sector, affordable land, and a rich culture, Louisiana and its residents have the potential to thrive.

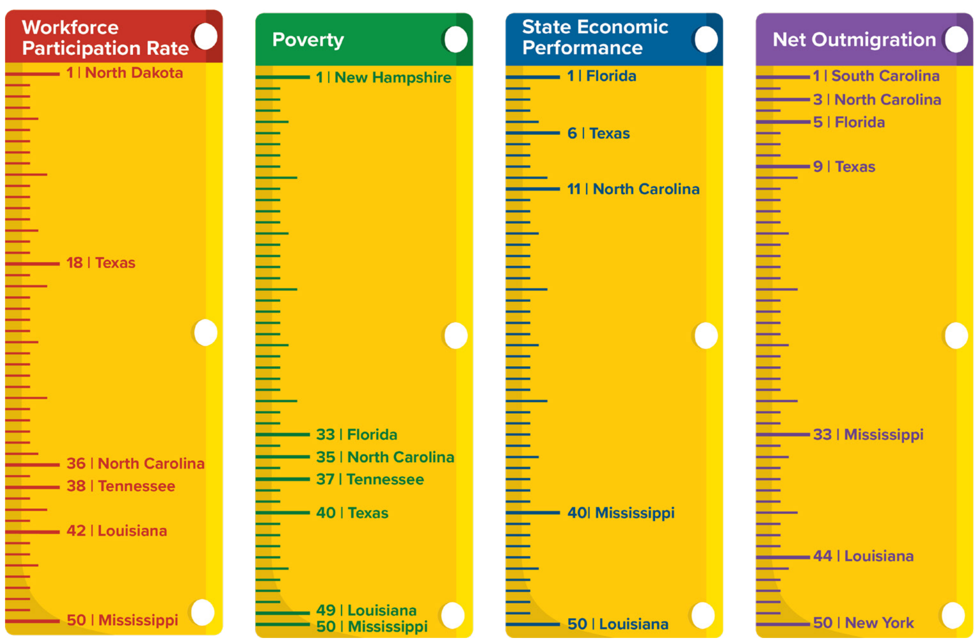
Policymakers can turn things around with smart tax reform, responsible budgeting, and policies that create real opportunity. When state leaders unleash Louisiana's economic potential, they will enable the state to bring families back and attract new residents. It's time for Louisiana to rise from the bottom and become a leader in growth and prosperity.

This plan outlines why the time for reform is now and how pro-growth policy changes can make Louisiana a top place to live and do business.

# Obstacles to Louisiana's Comeback

## LOUISIANA'S ECONOMIC WOES

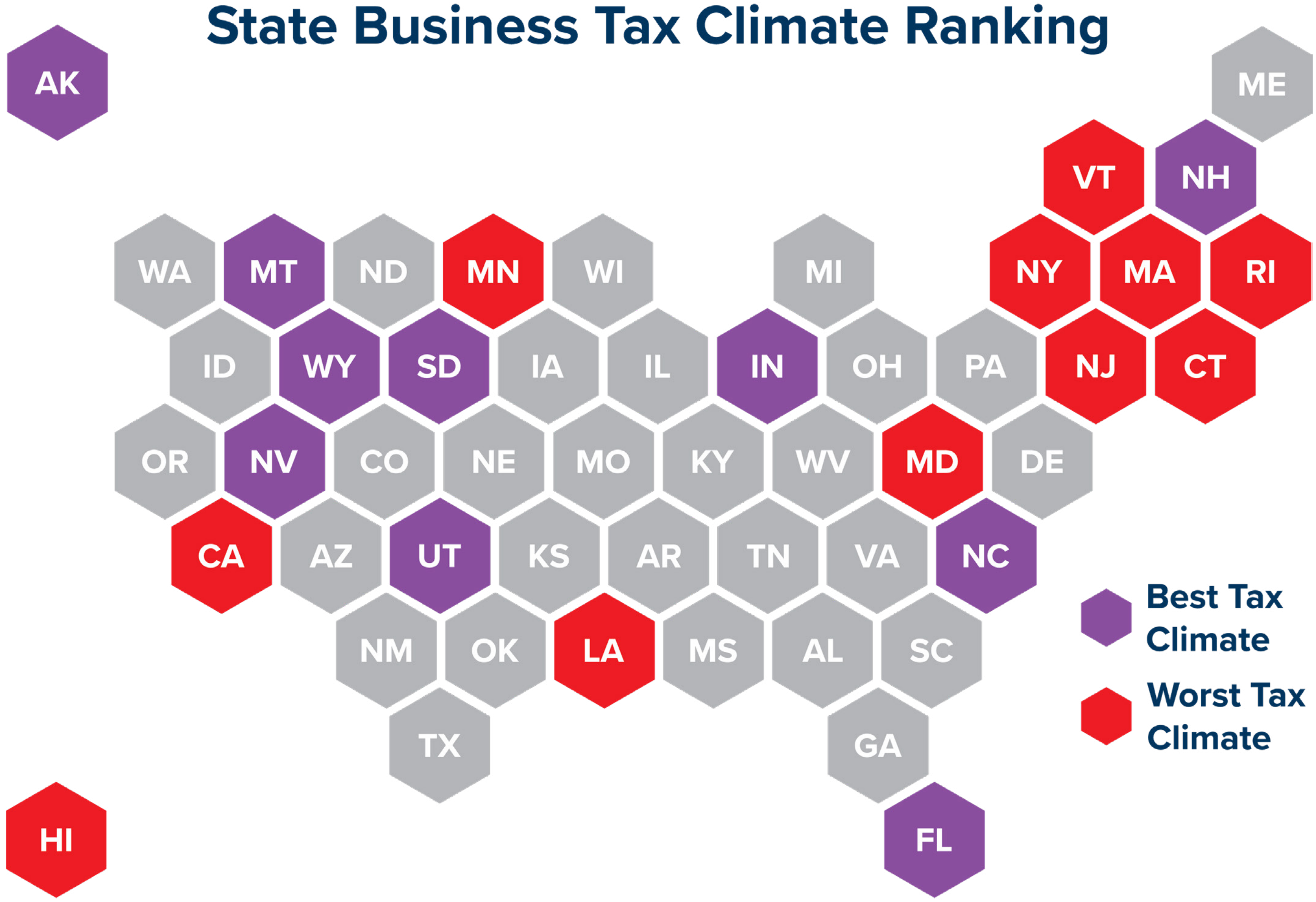
Louisiana has long dealt with slow economic growth, population loss, and fiscal instability. It consistently ranks poorly in economic health and individual well-being. To reverse this, the state must focus on fiscal sustainability that drives real growth. By embracing targeted reforms, Louisiana can finally unleash its potential.




**Competitiveness is key.** States with simpler, less burdensome tax systems attract more businesses, investment, and skilled workers.[1] Lower, streamlined tax rates foster economic growth, create jobs, and encourage people to stay or relocate. Louisiana currently ranks 40th in business tax climate[2], a drop from 32nd in 2014—not because Louisiana's climate worsened, but because other states have begun making the necessary changes.

1 Tax Foundation 2024 Business Tax Climate Index
2 https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/

## State Business Tax Climate Ranking




*2024 TAX FOUNDATION STATE BUSINESS TAX CLIMATE RANKING*

Tax reform alone, however, won't solve everything, and getting to tax reform requires much stronger fiscal constraint. Louisiana also needs a sensible regulatory environment, a skilled workforce, strong infrastructure, and access to markets. With tax policy that supports business investment and growth, Louisiana can unlock more economic opportunities, making it more competitive and prosperous.

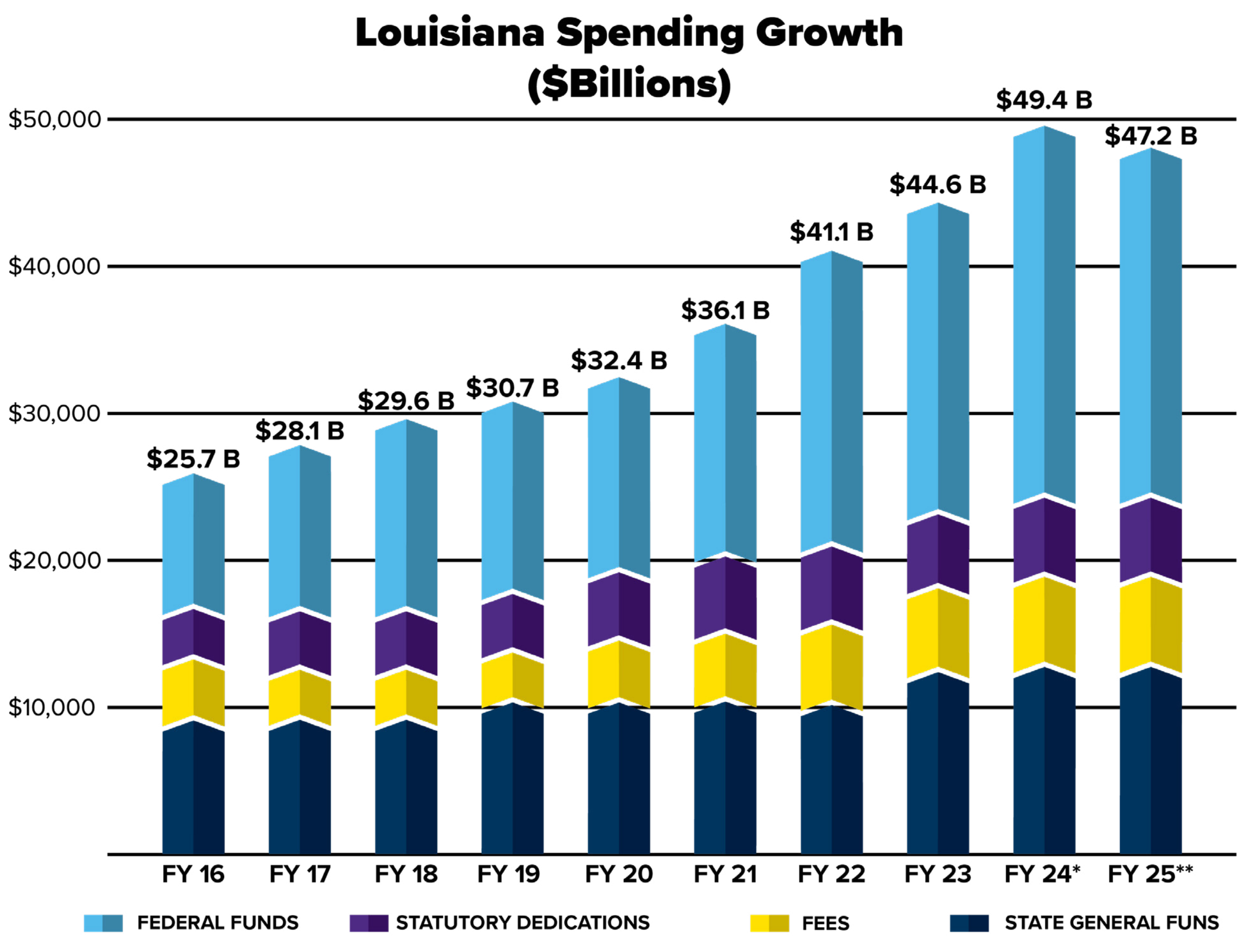
Currently, Louisiana's complex tax code—featuring progressive income taxes, a corporate franchise tax, and a local inventory tax—hampers entrepreneurship and family prosperity. With only 58.1% labor force participation[3] and the second highest poverty rate in the nation, Louisiana ranks last in economic performance.[4] Since 2017, Louisiana has lost over 107,000 residents,[5] equivalent to the population of Lafayette,[6] as people have left for greater opportunity and more favorable business environments.[7]

3 https://fred.stlouisfed.org/release/tables?eid=784070&rid=446
4 https://www.richstatespoorstates.org/
5 https://taxfoundation.org/data/all/state/state-population-change-2023/
6 https://taxfoundation.org/data/all/state/taxes-affect-state-migration-trends/
7 https://fred.stlouisfed.org/series/LAPOP

## LOUISIANA HAS A SPENDING PROBLEM

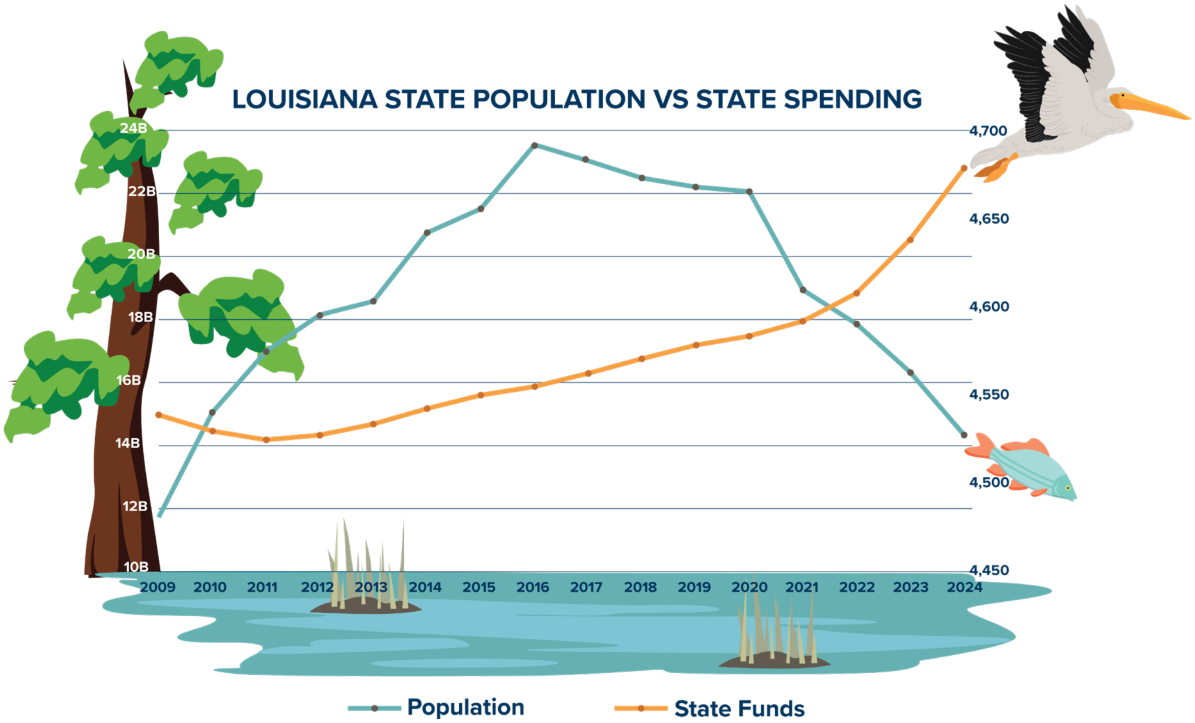
Reforming taxes without corresponding spending reform creates fiscal instability, as seen in Kansas,[8] where sensible tax cuts without spending restraint led to an unsustainable budget deficit and eventually tax hikes.[9]

Louisiana has long struggled to manage its budget effectively. Over the past decade, state spending has ballooned by 84%,[10] growing at twice the rate of inflation, even as the population shrinks. Despite having the 5th highest rate of net outmigration, Louisiana's government has continued to increase spending, relying on temporary federal funds and tax revenues.



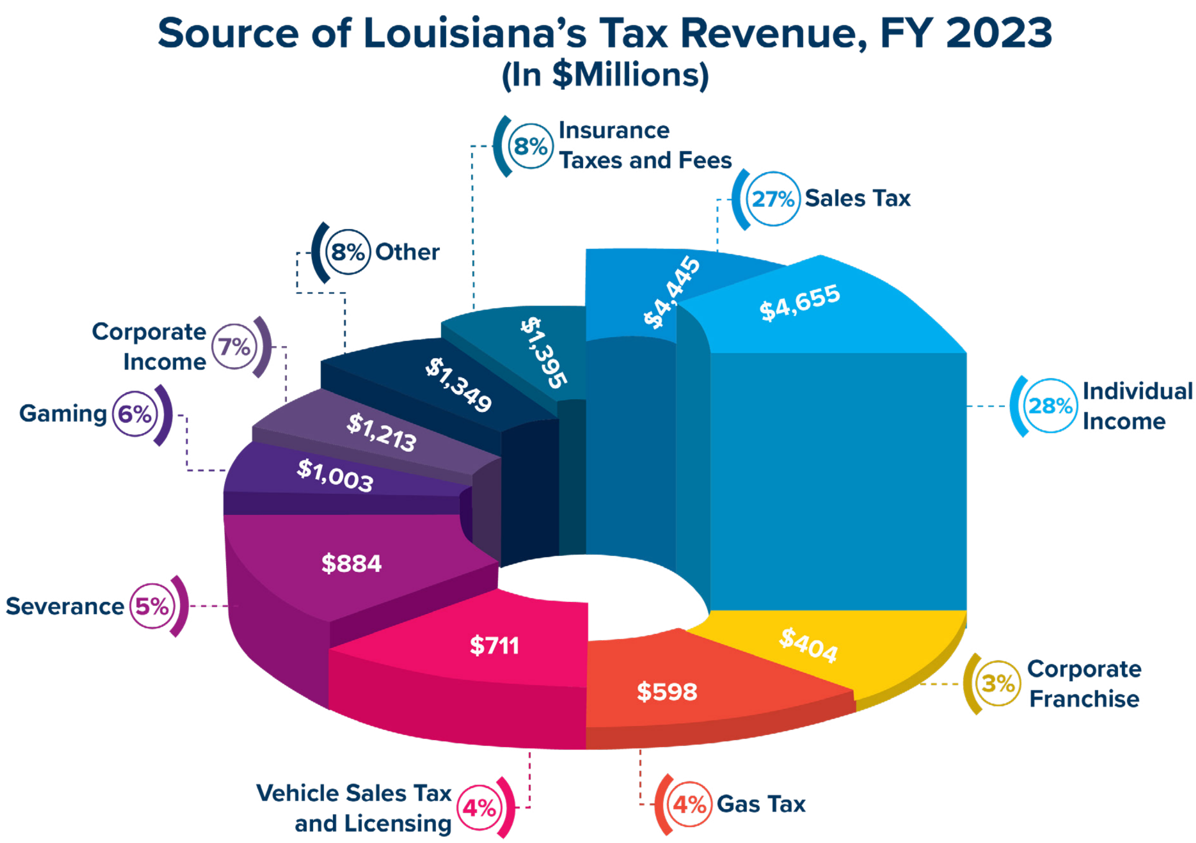

In 2018, the legislature passed a temporary sales tax increase—from 4% to 4.45%—to address a projected deficit and give the state time to stabilize its finances. However, instead of reforming spending, lawmakers used that temporary revenue to expand government programs, adding recurring expenses each year.[11] Now, with the additional sales tax set to expire in 2026, Louisiana faces yet another looming deficit. What some are calling a fiscal cliff is simply a reflection of the state's unwillingness to constrain spending—an insatiable appetite to fund as many government programs, services, and grants to local entities and private organizations as possible without planning for the expiration of this temporary buffer.

8 https://kansaspolicy.org/kansas-tax-experiment/
9 https://www.cato.org/blog/three-lessons-tax-defeat-kansas
10 https://doa.la.gov/doa/opb/budget-documents/executive-budgets/
11 https://taxfoundation.org/blog/flat-tax-state-income-tax-reform/




## LOUISIANA HAS A BURDENSOME TAX STRUCTURE

Louisiana's state government collects revenue from various sources, including personal and business income, sales, mineral extraction, gaming, and business wealth. In 2023, the state collected $16.7 billion, with over half coming from individual income and sales taxes.



## Individual Income Tax

Louisiana has a progressive income tax system with three rates applied to individuals, couples, and many small businesses. There are 99 exemptions, deductions, and credits for personal income taxes. In contrast, seven states have no personal income tax, and 13 states use a flat tax system, with more states adopting flat taxes each year.

| Tax Bracket | Rate |
|---|---|
| Married $0-25,000 | 1.85% |
| Single $0-12,499 | |
| Married $25,001-$49,999 | 3.5% |
| Single $12,500-$49,999 | |
| Married $100,001 and above | 4.25% |
| Single $50,000 and above | |

## Corporate Income Tax

Louisiana's businesses pay income taxes through a progressive system, the 16th highest state corporate income tax rates. This makes the state less competitive, especially when compared to states like South Dakota and Wyoming, which have no corporate or gross receipts taxes.[12]

| Tax Bracket | Rate |
|---|---|
| $0-$50,000 | 3.5% |
| $50,001-$150,00 | 5.5% |
| $150,001 and above | 7.5% |

## Corporate Franchise Tax

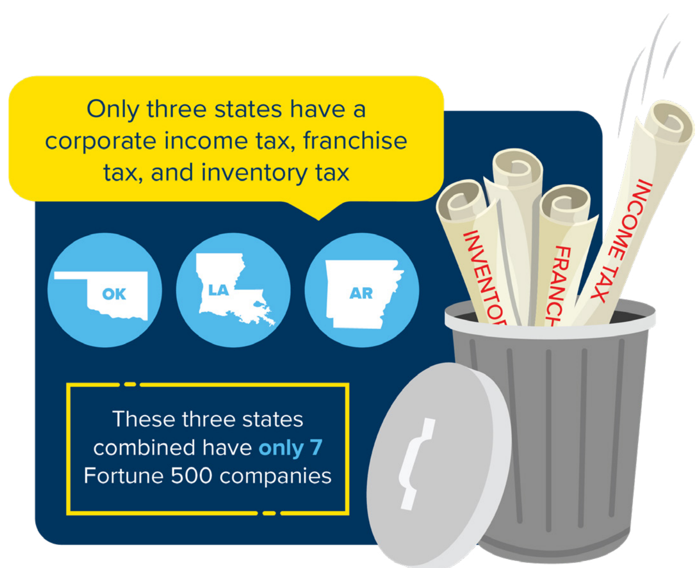
As well as taxing corporate income, Louisiana imposes a corporate franchise tax, levied on a business's assets.[13] This tax discourages investment and requires businesses to pay even when they aren't profitable.[14] It only makes up 3% of the state's revenue, but the franchise tax leads to higher prices, lower wages, and fewer jobs for Louisianans.

**Louisiana is one of 16 states with a franchise tax. Three of those states, including neighboring Mississippi, are phasing theirs out.**

## Business Inventory Tax

At the local level, Louisiana taxes business inventory, making it one of only nine states to fully tax inventory.[15] Like the franchise tax, it's levied regardless of profit and carries high compliance costs. To offset this burden, the state offers a refundable credit, further complicating the tax system and the relationship between the state and local governments. This $280 million per year transfer could be more effectively used as part of broader tax reform.

**Louisiana is one of only nine states that fully tax business inventory, and five states 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.**




12 https://www.texaspolicy.com/wp-content/uploads/2018/08/MarginTax-CFP.pdf
13 https://taxfoundation.org/blog/louisiana-franchise-tax-reform/#:~:text=The%20term%20%E2%80%9Cfranchise%20tax%E2%80%9D%20has,worth%20rather%20than%20net%20profits.
14 https://www.texaspolicy.com/economic-effect-of-eliminating-texas-business-margin-tax/
15 https://taxfoundation.org/data/all/state/state-business-inventory-tax-2021/

## Sales Tax

Experts recommend broad-based sales taxes, applied to most goods and services at low rates. Louisiana's system is narrow and high. With an average state and local combined sales tax rate of 9.56%,[16] Louisiana leads the nation, surpassing even Tennessee, which has no personal income tax. The state's base rate is currently 4.45%, while local governments add their own taxes. To mitigate the impact of the high rate, the state has created 220 exemptions and exclusions. This forces higher rates on the few products that remain taxed to generate the same revenue.

One of the most prominent features of Louisiana's sales tax structure is its fragmented administration.[17] Unlike most states, which have a centralized system to oversee sales tax collection and enforcement, Louisiana has multiple layers of authority. Both the state and local governments administer sales taxes independently.[18] This creates a labyrinth of regulations, deadlines, and filing requirements. This decentralized approach leads to confusion and errors, especially for small businesses, which often lack the resources to manage such complexity.

## Complexity

Louisiana's tax system is complicated, with 564 distinct tax exclusions, deductions, credits, and exemptions. These preferences benefit a few taxpayers and shift the burden, leading to higher overall tax rates.

Nearly 40% of the tax levy is excluded due to these carve-outs, making the system inefficient and unfair. A simpler tax structure with fewer preferences and lower, flat rates would be more equitable and encourage broader participation.

In 2023 alone, these tax preferences were valued at over $7 billion, without which all taxpayers could have had much lower tax rates. Louisiana has one of the highest corporate income tax rates in the South and is perceived as a high-tax state. In reality, actual taxes paid are not as high as they are on paper. But individuals and businesses have to jump through a lot of hoops to lower their tax burden, raising the cost of compliance and the chances of making mistakes.

**In total, the state had 564 tax preferences with a value of over $7 billion in fiscal year 2023. These special carve-outs increase the complexity of the tax structure while allowing the government to pick winners and losers.**

Louisiana is one of just three states that impose corporate income, franchise, and inventory taxes—the most burdensome combination for businesses. As a result, only two Fortune 500 companies are headquartered in the state.


THE HEAVY BURDEN OF 564 TAXES PREFERENCES

16 https://taxfoundation.org/data/all/state/2024-sales-tax-rates-midyear/
17 https://pelicanpolicy.org/tax-budget/louisiana-lawmakers-must-reform-and-modernize-sales-tax-code-pelican-institute-and-national-taxpayers-union-foundation-says\
18 https://pelicanpolicy.org/tax-budget/louisianas-sales-tax-laws-are-a-nightmare-for-small-business-owners/

# Solving the Fiscal Reform Puzzle

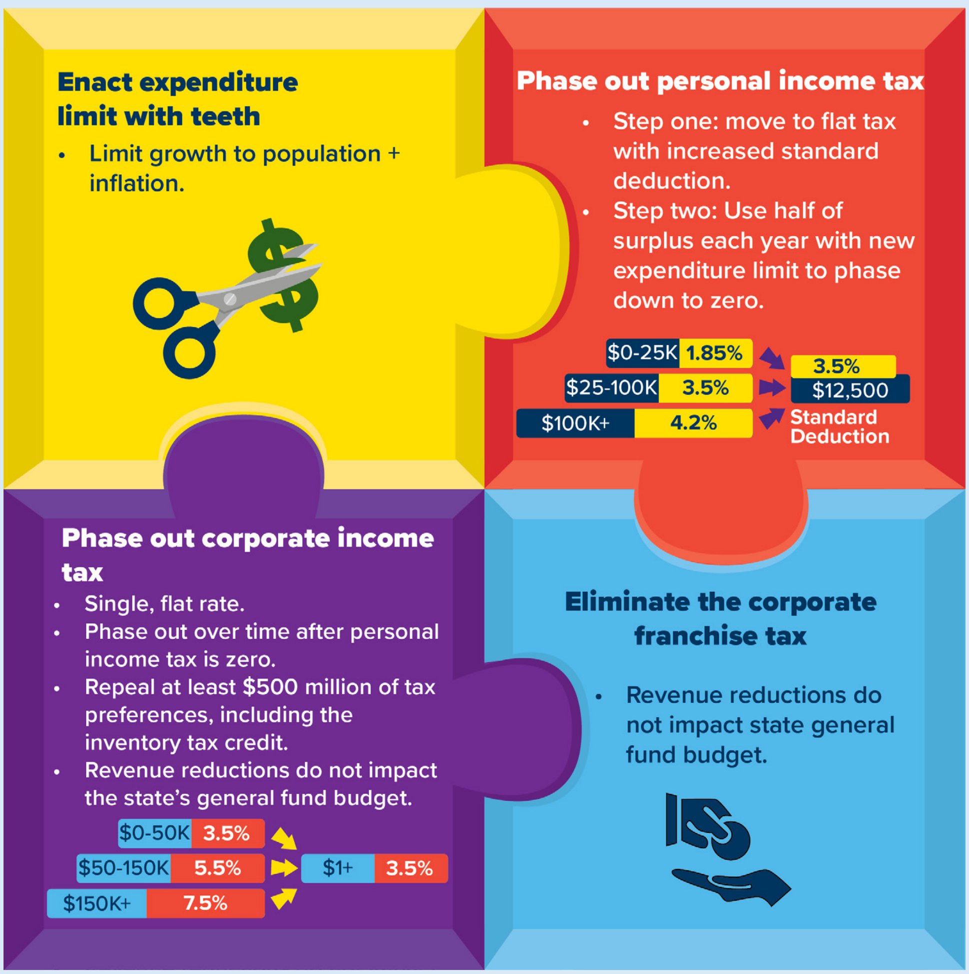
## DYNAMIC MODELING

Pelican, in partnership with the Economic Research Center,[19] used a dynamic model to evaluate tax reforms in Louisiana. The model forecasts how tax changes would affect the state's economy, including gross domestic product (GDP), employment, revenue, personal spending, and business investment. A key assumption in the following plan is the expiration of temporary taxes, such as the 0.45% state sales tax increase and 2% tax on business utilities.

**Simplifying the tax structure, as other states have done, can boost economic growth, create jobs, and attract residents. However, Louisiana must pair tax reform with spending restraint.**

## THE FISCAL REFORM PUZZLE

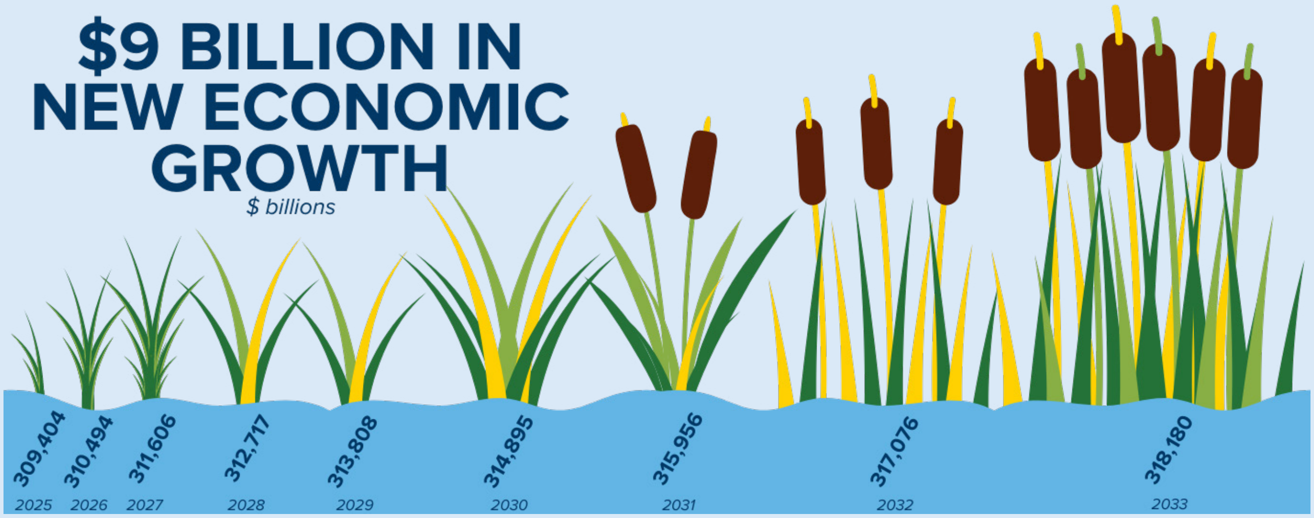
How can state leaders put the pieces of this fiscal puzzle together to solve Louisiana's economic woes? The plan should include *immediately repealing* the most burdensome taxes, flattening income tax rates,[20] and eliminating tax preferences—while re-thinking the way government spends its citizens' hard-earned dollars.



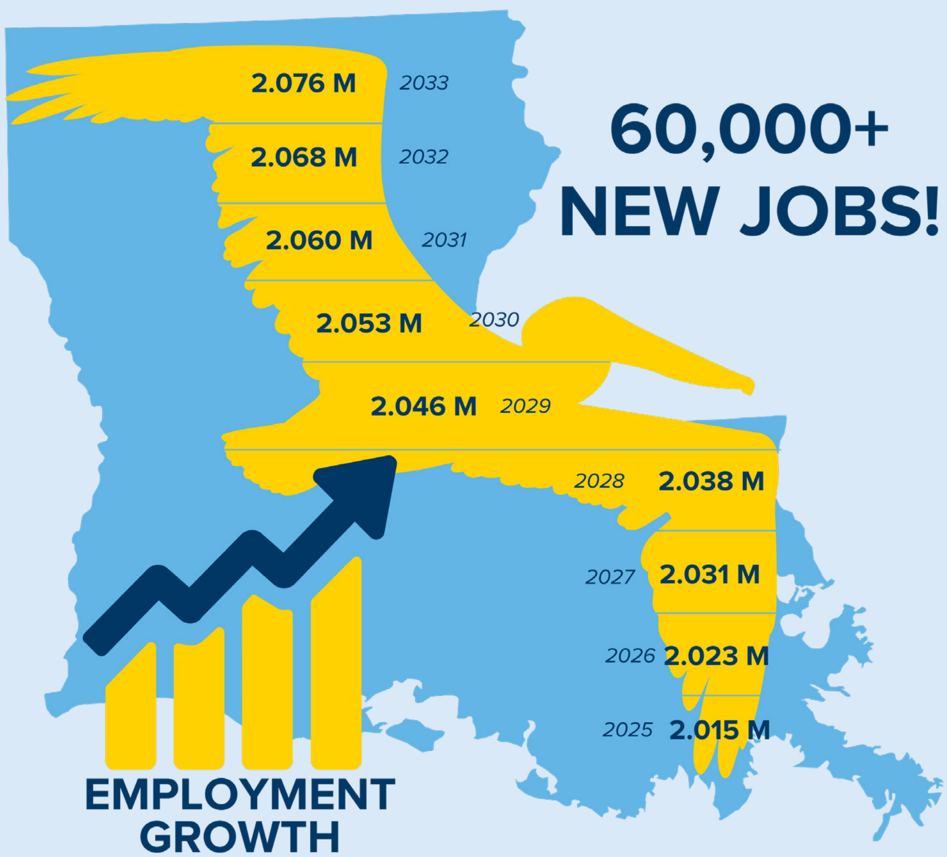

19 https://www.buckeyeinstitute.org/centers/detail/economic-research-center?gad_source=1&gclid=Cj0KCQjw3bm3BhDJARIsAKnHoVUfEMK0-Pivr8zRhXERthqhNE5O9S v4xQZNHVjhF3Oly2ZjciD4AMwaAiVPEALw_wcB

20 https://taxfoundation.org/taxedu-primer-not-all-taxes-are-created-equal/

# $9 BILLION IN NEW ECONOMIC GROWTH




Dynamic modeling projects that implementing these reforms would boost economic growth by over $2 billion, create 5,000 new jobs, increase business investment by $1.1 billion, and increase the purchase of goods and services by $600 million, all in just the first year. These changes would immediately ease burdens on individuals, families, and businesses, leveling the playing field and making Louisiana more competitive.



# Making the Puzzle Pieces Work Together


## RESTRAIN GOVERNMENT GROWTH

To enhance Louisiana's long-term economic potential, smart budgeting practices are essential. Lawmakers should focus on making government more efficient, effective, and limited in scope by doing the following.

★ Establish a stronger spending limit which is more difficult to exceed and based on population growth and inflation.

★ Restructure the state-local relationship to reduce local reliance on state funds and promote spending restraint at all levels.

★ Refocus capital outlays on essential government projects like roads, bridges, and water infrastructure, while reducing support for non-governmental organizations.

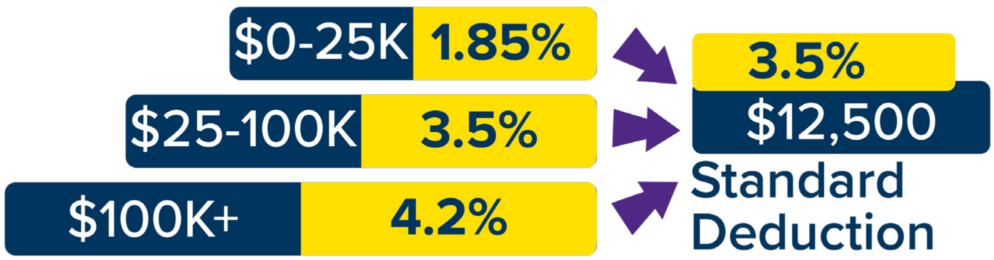
★ Shift to a zero-based budgeting process to better identify spending priorities and eliminate waste.

★ Evaluate and cut ineffective programs to ensure taxpayer dollars are only spent on initiatives that deliver results.

## PHASE OUT PERSONAL INCOME TAX

Lawmakers should phase out the personal income tax in the next several years. The first step to accomplishing this is to establish a flat personal income tax rate, raise the standard deduction, then gradually phase the tax out to achieve maximum economic competitiveness.

Flattening the personal income tax to 3.5% and increasing the standard deduction to $12,500 would provide immediate relief to working individuals, families, and small businesses. The dynamic model predicts this reform would increase the size of the economy by $520 million, create 2,000 new jobs, boost business investment by $240 million, and increase the purchase of goods and services by $210 million.




When flattening the tax, lawmakers must also enact provisions to phase it out completely. Lawmakers must restrain spending with an improved spending limit, with teeth, based on population growth and inflation. The phase down can be done by simply reserving 50% of the state's surplus dollars to buy down the flat rate each year until it reaches zero.

**The dynamic modeling shows that it would take approximately eight years to phase the income tax out completely. This will create an additional 15,000 new jobs and more than $6.6 billion in new economic growth, while leveling the economic playing field with our neighbors.**

## ELIMINATE THE CORPORATE FRANCHISE TAX

Lawmakers must put an end to the burdensome corporate franchise tax and the associated preferences.

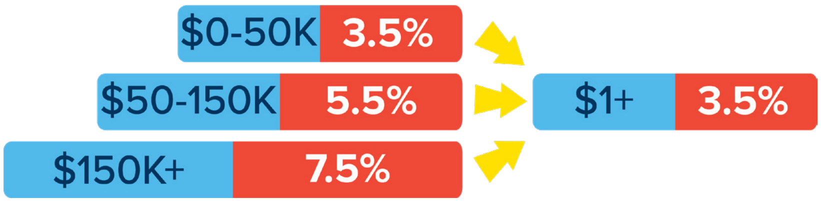
Eliminating the corporate franchise tax would be a game-changer for Louisiana's economy. According to the dynamic model, **this move would immediately boost GDP by $360 million, create 1,000 new jobs, increase spending on goods and services by $60 million, and increase business investment by $220 million in the first year alone.** Initially, tax revenue may decrease by approximately $160 million, but because all franchise tax revenue currently flows into the Revenue Stabilization Fund, a secondary state savings account, eliminating the franchise tax will not impact the budget.

The long-term benefits far outweigh any initial impacts. By the second year, total government revenues would surpass pre-reform levels, making this change the most effectual piece of the tax reform puzzle.

## PHASE OUT THE CORPORATE INCOME TAX

A plan should be made to phase out the corporate income tax, after first flattening the rate. A phase out of this tax should begin once the personal income tax is phased out.

A flat corporate income tax rate of 3.5%, combined with the elimination of at least $500 million in tax preferences, especially those with low returns on investment, would create a fairer, more competitive environment for businesses.




Corporate tax rates are very high, so lawmakers adopted plenty of preferences and incentive programs to mitigate the burden. But if a business is unfortunate enough not to have any of these coupons to clip, then they are stuck with the very high rate. To devise a fairer tax system that is attractive to all businesses, many of the state's preferences should be repealed and the rate flattened as much as possible. At a minimum, $500 million in preferences, including the deduction for inventory taxes paid to local governments, should be eliminated.

**In its first year, this reform would add nearly $1 billion to the economy, create 2,000 new jobs, increase business investment by $600 million, and increase personal spending on goods and services by $180 million.** While taxpayer dollars may decrease by $450 million, this impact would be largely absorbed by the Revenue Stabilization Fund, not the general fund. Additionally, other taxpayer revenues will increase from the economic growth and surpass current revenues within three years.

# Other Tax Reforms to Be Considered

The biggest opportunity to drive economic growth and job opportunities in Louisiana lies in reform of our state's income tax system, but other reforms are also important. In addition to the plan detailed above, lawmakers should support reforms to the state and local sales tax and the local inventory tax.

## SALES TAX

Modernizing Louisiana's sales tax system is essential to reducing the administrative burden on businesses and creating a fairer, more transparent structure for consumers. The current system's complexity can be streamlined through several key reforms.

- ★ **Centralize and streamline sales tax collection and administration**. This would dramatically reduce compliance costs and the risk of errors, making it easier for businesses—especially small and medium enterprises—to operate without the threat of penalties or costly outsourcing of tax management.
- ★ **Simplify and unify state and local sales tax base.** This is a reform that could reduce confusion for both businesses and consumers. Currently, different parishes may tax items differently, leading to discrepancies in how goods and services are taxed across the state. A standardized tax base would eliminate these inconsistencies, ensuring that goods are taxed at the same rate no matter where they are sold.
- ★ **Repeal exemptions and exclusions.** Louisiana has nearly 220 exemptions, exclusions, and sales tax rebates in state law. Lawmakers should consider consolidating exemptions to ease compliance, while eliminating any that are not considered a tax on business inputs.

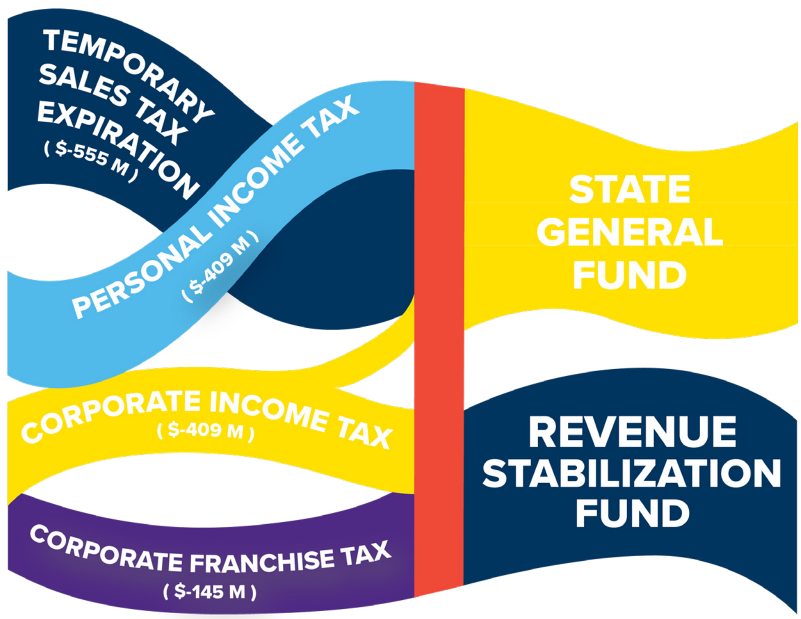
## INVENTORY TAX

To mitigate the harmful impact of inventory taxes, the state offers a tax credit to reimburse businesses for the inventory taxes they pay to local governments. However, this system simply shifts the financial burden from businesses to the state, effectively subsidizing local tax revenues without addressing the root issue. Local governments continue to collect inventory taxes, while the state's budget is drained to cover the credits—making the tax little more than a subsidy to local governments.

Repealing the inventory tax would bring Louisiana in line with the majority of states that have abandoned the tax altogether, making the state more attractive to new businesses and investors. Though local governments depend on the revenue, reforming or gradually phasing out the inventory tax is essential to creating a more competitive business environment and modernizing Louisiana's tax structure.

## TAX REFORM'S IMPACT ON REVENUE

Solving the tax reform puzzle may mean a temporary reduction in state taxpayer revenue. However, as documented before, state spending has increased 84% over the last decade. Spending must be restrained for our economy to grow.




The impact of solving the tax reform puzzle means that Louisiana's economy will grow by $2 billion, and the state will add at least 5,000 new jobs, just in the first year. This means that more businesses and individuals will pay taxes, contributing more to the taxpayer pie, even when rates are lowered or even eliminated.

The expiration of the temporary sales tax increase has the largest impact on state tax revenue, but this is already factored into state budget forecasts. The reduction in revenue from the sales tax and personal income tax may temporarily affect the state's general fund. However, the reductions in revenue stemming from the elimination of the corporate franchise tax and flattening of the corporate income tax will only affect the Revenue Stabilization Fund. This is because state law requires that any revenue from these two sources in excess of $600 million must go to the Revenue Stabilization Fund, a secondary state savings account. Because these taxes generated over $1 billion in recent tax years, a reduction of $550 million will not affect the general fund.

To further reduce complexity in the tax structure, while also helping to stabilize government revenues, it is important to consistently review all tax preferences. Lawmakers should immediately repeal at least $500 million in corporate tax preferences and all $114 million of the tax preferences associated with the corporate franchise tax. Local governments should be allowed to opt out of charging inventory tax, and the inventory tax credit, worth approximately $280 million, should be repealed. The effect of these preference repeals will mitigate many of the effects on general fund revenue. With an additional 5,000 people working, this plan will also move individuals out of poverty by improving the state economic climate and adding jobs, meaning less need for government spending on social services and more stable tax revenue.

## Conclusion


This bold, comprehensive tax reform plan is expected to generate significant new economic activity in just the first year, creating 5,000 new jobs and increasing economic activity by $2 billion. This will generate at least $1 billion in new business investment and spur consumers to spend more than $600 million on goods and services.

Comprehensive tax reform is essential for Louisiana's future economic health. By flattening taxes, eliminating burdensome levies like the corporate franchise tax, and enacting sustainable spending reforms, Louisiana can spur growth, create jobs, and build a stronger, more competitive, and more prosperous future.

## Author

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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 evaluated 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 in these policy areas by not only evaluating Louisiana's laws, regulations, and programs, but also researching other states' 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.

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