5.2.2021

Commentary

The Public Affairs Research Council of Louisiana

The Road So Far

Tax bills gain momentum while windfall spending comes into focus

Three weeks into the Louisiana Legislature's nine-week session, much progress has been made moving tax reform bills and addressing how to disburse massive federal stimulus dollars. To be sure, zero pieces of real legislation have passed so far, but the leading contenders are emerging as lawmakers pursue the art of the possible.

The process has been propelled by collaboration between the House and Senate and a Governor who has defined his preferences for tax changes and spending priorities. The Public Affairs Research Council of Louisiana (PAR) is closely following the developments. Here's where matters stand on some key issues:

Individual Income Tax

A package of bills persuasively sponsored by Sen. Bret Allain and Rep. Stuart Bishop – the chairs of the tax committees – would reduce income tax rates while eliminating the constitutionally required state income tax deduction for federal taxes paid, along with excess itemized deductions except for medical expenses. The move would decouple the fluctuating federal tax system from Louisiana's revenue outlook and stabilize taxpayer liabilities from year to year. This approach has been a PAR recommendation for many years.

The package would keep three tax brackets but lower the rates for each, with the top rate moving from 6% to around 4.25%. The effort has been vetted with the Governor, revenue department and various tax groups and experts. The authors have made the impact as revenue neutral to the state coffers as can be foreseen. They also have tried to create minimal impact on the taxes owed on average within each taxpayer bracket.

Significantly, by declining from 6% to 4.25%, Louisiana's upper rate of income tax would move from the 18th highest to a new position approximately tied as the 38th highest among the states. Not counting the nine states without a regular income tax, Louisiana would have a top rate lower than all but two other states. The comparisons are not entirely fair, because some states with lower rates currently have bracket systems less generous to the taxpayers than in Louisiana. But this reform package will diminish the unfair perceptions of Louisiana's high tax rate.

Corporate Taxes

The Legislature is moving bills that would eliminate the state tax deduction for federal taxes paid from the state corporate income tax, combined with an upper rate reduction from 8% to a flat rate of 6.5%. The leading initiative is by Rep. Neil Riser, formerly head of the tax committee when he was in the Senate, and generally coincides with PAR recommendations. Several versions of this idea are in play. Meanwhile, legislation is moving that would raise the floor of the taxable base of the corporate franchise tax, a PAR proposal. More than 100,000 companies would be relieved from the franchise tax at a cost to the state of about $7 million. However, this would not represent a state revenue loss year-to-year because the Legislature essentially passed the same measure in 2020 in the form of a suspension of law.

Centralized Sales Taxes

The terminology in vogue around the Capitol is to call this a streamlining bill rather than centralization. Louisiana currently has a highly decentralized sales tax collection, administrative and auditing system among state and local governments, something that is way out of step with most every other state in the country. The House Speaker's momentous legislation calling for a new sales tax commission has moved to the Senate, where it will be up for a tax committee hearing Monday morning. It is a constitutional amendment, which requires a two-thirds vote of both chambers to pass, followed by a vote of the people in November 2022, followed by statutory implementation legislation in 2023. If voters approve the new commission, it would not begin actual centralized collections until the Legislature passes statutory implementation. By the way, the constitutional amendment requires that implementation statutes be passed with a two-thirds vote. If that happens, we might see centralized collections begin in 2025. PAR supports a centralized and streamlined sales tax system with a governance body that is appropriately accountable to taxpayers and state and local governments.

Infrastructure Financing

Proponents of greater infrastructure spending who earlier this year proposed an unpopular gas tax increase have regathered their forces and come back with an initiative for a long-term sales tax dedication. A bill by Rep. Paula Davis would target the current temporary state sales tax of 0.45%, which produces revenue now going to the state general fund. Her bill would take a growing portion of that tax each year and dedicate the revenue to an infrastructure trust fund. The current temporary tax is scheduled to expire after 2025, but Davis' bill would maintain it into the future at a level of 0.4% and continue to take a greater portion of it each year until the full amount was dedicated to the special transportation trust fund. The strategy is to find a regular source of revenue for roads and bridges that isn't a fuel tax or an immediate new tax, while softening the impact to the state general fund overtime.

Dedications

Some new taxes are being proposed, including for sports betting and marijuana sales, and legislators seem intent on dedicating any new revenue to special purposes. Lawmakers are doing this even though dedications are inadvisable tax policy and legislators routinely complain about them. If new revenue is raised, just let it flow into the state general fund. Each year the Legislature can decide how to balance priorities with the discretionary money.

Federal Spending

The Governor has outlined a spending program for the money the state will receive from the federal American Rescue Plan. The state is expected to receive about half of its $3.2 billion allocation on May 10, along with clearer guidelines about how it can be spent. The remaining amount will come next year. This is not counting billions of more dollars slated for certain kinds of infrastructure projects such as broadband, and direct federal assistance to local governments, school districts, colleges and day care centers.

The Governor has outlined his plan for spending the windfall. He would target the depleted unemployment trust fund, ports and the tourism and convention business, all of which were severely impacted by the pandemic and economic downturn. He also is targeting road and bridge infrastructure projects and water and sewer needs on the local level. The programs appear to reflect the Governor's desire to avoid spending one-time dollars on regular state operational costs, which could result in budget shortfalls in future years.

PAR had earlier advised that some of the federal money should be channeled through the state's revolving loan or trust funds set up to assist local governments. Utilizing existing programs like these could help make the process of distribution more fair, accountable and effective. This approach is the one taken by the Governor for the water and sewer projects.

PAR would additionally advise that local governments or utilities that receive this kind of assistance be able to demonstrate that they have a financial plan and appropriate revenue structure so that in the future they can maintain these upgrades and not fall back into financial distress with poor facilities. PAR also has recommended the state publish detailed spending plans for the federal money, maintain a web portal tracking the spending and allow a recovery commission to monitor the effectiveness of the state's handling of the federal windfall.

State Spending

The state budget for next fiscal year is boosted by a larger federal match of Medicaid dollars that are being applied as part of the federal pandemic relief programs. Basically, the state may have some additional new expenses due to COVID relief, but it also has a budget outlook with hundreds of millions of dollars freed from Medicaid health care expenses. Legislators may be too eager to spend these freed-up state dollars elsewhere in the budget as if the extra federal Medicaid money will continue to be available in the future.

Early Childhood Care and Education

Lawmakers and the Governor continually talk about making early childhood care and education a real priority and yet do not match their actions to their words. The federal stimulus dollars targeted at child care and young children will be very beneficial in the next year or two, but the state efforts specifically to finance these early childhood programs and make them a priority are subordinate to other programs – including new funds for K-12, teachers and higher education – to the point of neglect. Also, we question new taxes that would dedicate revenue to education programs other than early childhood. While PAR does not favor tax revenue dedications, these types of bills are another indication of the low status of early childhood programs in Louisiana.

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