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Louisiana's Fiscal Cliff Resolved

Actions taken in November special session eliminate state budget gap

Louisiana's governor and lawmakers will get to sidestep debates over whether to make steep budget cuts next year thanks to the tax changes they adopted last month.

The state's income forecasting panel, the Revenue Estimating Conference, confirmed on Thursday that the tax overhaul passed by lawmakers in the November special session raised enough money to close the fiscal cliff facing Gov. Jeff Landry and legislators.

The House and Senate agreed to lower and flatten income tax rates for people and businesses in exchange for raising sales taxes and newly charging those sales taxes on digital goods and services. They eliminated the corporate franchise tax, removed a slew of tax breaks and temporarily diverted tax dollars dedicated to road and bridge work to general government operations instead. Many of the tax changes take effect Jan. 1.

The package of adjustments wiped out a nearly $400 million gap that had been forecast for the 2025-26 budget year that begins July 1.

State General Fund (Projected)

Fiscal Year	Previous Forecast	New Forecast
Current FY 2024-25	$12.08B	$12.11B
Next FY 2025-26	$11.70B	$12.15B
Future FY 2026-27	$11.87B	$12.30B

Source: Revenue Estimating Conference

The four-member Revenue Estimating Conference adjusted the state's income projections to account not only for the tax package passed in the special session but also for economic conditions that change anticipated tax collections. The conference includes the governor's chief budget adviser, the Senate president, the House speaker and an independent economist who are advised by state economists tracking tax and fee collections and data.

The forecast adjustments will give lawmakers $447 million more in state general fund money to spend in the upcoming budget year, eliminating the shortfall that had been on the horizon. (State general fund dollars are flexible, undedicated cash that the House and Senate can spend on any priority they choose.)

Also, the conference made minor tweaks to this year's projections, giving lawmakers an extra $29.4 million in state general fund cash to spend in the budget year that ends June 30.

With the latest action, Louisiana's state general fund is projected to remain around $12 billion annually for the next several years, rather than fall below that amount.

None of the actions of the Revenue Estimating Conference reflected a sweeping rewrite of the budget and tax section of the Louisiana Constitution passed by lawmakers that would pay down retirement debt, merge state savings accounts and help provide money for a permanent teacher pay raise rather than one-time stipends.

Those constitutional changes require approval from voters in a March 29 election before they could take effect, so the forecast will only be adjusted to account for those changes if voters back them next year.

Tax Overhaul

Most of the tax rewrite lawmakers passed in the special session doesn't need voter approval.

Starting Jan. 1, Louisiana will move from a graduated system of individual income tax rates to a 3% flat tax rate across all income levels, with higher standard deductions and retirement deductions than previously given to taxpayers.

The state's corporate income tax rate also will shift from graduated rates to a flat 5.5% rate, and corporations will get a new standard deduction for the first $20,000 of taxable income. The corporate franchise tax charged on larger businesses will disappear in 2026.

To offset those tax cuts, lawmakers raised Louisiana's state sales tax rate to 5% in January, up from a 4.45% rate. That 5% sales tax rate will remain in place through 2029, falling to 4.75% in 2030.

Legislators also renewed a state sales tax on business utilities, and they eliminated several tax breaks while newly capping others so payments can't exceed certain costs to the state treasury each year. In addition, they diverted $280 million in annual vehicle sales taxes that were supposed to pay for transportation projects to the state general fund for two years.

The Revenue Estimating Conference accounted for those tax changes in its forecasts, along with other modifications to account for changes in ongoing state and national economic conditions.

Among the largest revisions made to next year's forecast, the panel cut the projections for individual income tax collections by $995 million and corporate tax collections by $181 million. They raised projections for sales tax collections by $1.3 billion.

Next Steps

The Landry administration will use the income estimates set by the conference to craft its budget proposal for next year, which is due to lawmakers by Feb. 28.

Meanwhile, the governor and lawmakers will await the outcome of the March 29 election to determine if they'll have additional dollars available to them, including money to make permanent the salary stipends that public school teachers and support staff have received from the state for the last two years.

Lawmakers will decide on a final version of next year's budget in the two-month legislative session that begins April 14 and ends in June.