Overview of the ongoing saga and debate
   ◦ Professor Steven Sheffrin

Experience from other states
   ◦ Professor James Alm

Distributional issues
   ◦ Professor Nora Lustig
Jindal’s Original Proposal and Latest

**Original Proposal**
- Eliminate personal income, corporate and franchise taxes
- Preserve credits against those taxes (e.g. inventory credits)
- Raise state sales tax rate from 4 to 6.25%
- Extend sales tax to many services (including business)
- Provide new entitlements to low income and retirees.
- Centralize sales tax administration
- Raise tobacco tax

**Key Problems**
- Distributional questions
- Shifted tax burden to business
- Revenue neutrality?

**Latest Foray**
- Just find some way to phase out or eliminate income tax (or taxes?). No commitment to revenue or expenditure offsets.
## Perspectives on LA tax system

**Overall burden low (4\textsuperscript{th} lowest per capita)**

<table>
<thead>
<tr>
<th>TAX</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income tax</td>
<td>Moderate rates, could eliminate deductions for federal taxes and excess itemized deductions to lower rate</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>Moderate rate, not terribly aggressive, could eliminate deduction for federal income tax for a lower rate</td>
</tr>
<tr>
<td>Franchise tax</td>
<td>Distorting tax on equity capital-should be eliminated ($85 million)</td>
</tr>
<tr>
<td>Sales taxes</td>
<td>Combined state and local rates very high. Multiple tax bases</td>
</tr>
<tr>
<td>Sales tax administration</td>
<td>Too many collectors—not consistent with proposed federal legislation on taxation of internet sales</td>
</tr>
<tr>
<td>Property taxes</td>
<td>Very low because of generous homeowners exemption. Forces use of high local sales taxes.</td>
</tr>
</tbody>
</table>
**Are there lessons from other states?**

Since 2000, there have been tax reform efforts in 18 states:

<table>
<thead>
<tr>
<th>Arizona</th>
<th>California</th>
<th>Florida</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>Maine</td>
<td>Minnesota</td>
</tr>
<tr>
<td>New Mexico</td>
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<td>North Carolina</td>
</tr>
<tr>
<td>North Dakota</td>
<td>Ohio</td>
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</tr>
<tr>
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<td>Tennessee</td>
</tr>
<tr>
<td>Utah</td>
<td>Washington</td>
<td>Wyoming</td>
</tr>
</tbody>
</table>

And several other states have now entered the arena in 2013, including Georgia, Hawaii, Indiana, Kansas, Nebraska, North Carolina, Ohio, Oklahoma, Utah, Virginia – and Louisiana.
**Key issue:**

*Does a state with no income tax grow faster?*

The nine states *without* a broad-based income tax are:

- Alaska
- Florida
- Nevada
- New Hampshire
- South Dakota
- Tennessee
- Texas
- Washington
- Wyoming

→ What is the evidence on growth?

Top Bar should be Red (0.4-0.5)
Figure 1: Economic Performance Among the States, 2002-2011

- **Per Capita Real GSP Growth**: 5.2% (9 States Without a Personal Income Tax), 6.3% (9 "High Rate" Income Tax States), 6.0% (All States Levying an Income Tax)
- **Real Median Household Income Growth**: -4.4%, -4.2%, -4.1%
- **Average Annual Unemployment Rate**: 6.0%, 6.1%, 6.0%

Source: ITEP calculations based on 2002-2011 data from the BEA (per capita real GDP by state in chained 2011 dollars), Census Bureau (median household income by state), and BLS (local area unemployment statistics, annual averages).
So:

- There is **no** consistent, systematic evidence that states with a low (or no) income tax grow faster than states with an income tax.
- There is **no** consistent, systematic evidence that state “business climate” matters for economic growth.
- What **does** seem to matter? State expenditures on infrastructure, state political orientation, and state-specific idiosyncratic features.
What is a “good” tax reform?

- The most efficient tax uses a low rate on a broad base.
- State tax systems should consider vertical equity.
- A balanced state tax system consists of an individual income tax, a sales tax, and some form of business tax.
- State tax systems need to be modernized.
- State tax systems need to promote competitiveness.
- There is no one-size-fits all strategy.
- Tax reform must recognize and balance the tradeoffs.
And: 7 steps of state tax reform

1. Form a commission
2. Develop “Principles of Tax Reform”
3. Hold hearings/review expert testimony/conduct analysis
4. Make a proposal
   a) If your state doesn’t have an individual income tax → propose income tax
   b) If your state has an individual income tax → propose to eliminate income tax
   c) If your state doesn’t have a retail sales/consumption tax → propose sales tax
   d) If your state has a goods-based retail sales tax → propose to tax more services
   e) If your state has a corporate income tax → propose gross receipts tax
   f) If your state has a gross receipts tax → propose corporate income tax
   g) Never mind “e” and “f” → propose to eliminate all business taxes
   h) If your state needs “bold new thinking on taxes” → propose VAT
   i) Propose to eliminate all exemptions, credits, and deductions
   j) Express frustration that the state cannot effectively tax internet sales
   k) (Optional) Mess with local government revenues
5. Watch proposal go down in flames in the political process
6. Wait 5-10 Years until the next fiscal crisis
7. Repeat
Inequality & Poverty in Louisiana

- Ninth Poorest State
  - Median Income at $43,000 equivalent to 84 percent of US median income

- High poverty rates
  - Incidence of Poverty 18.6% vs. US average 13%

- Inequality is also high
  - Gini coefficient 0.46 vs. 0.37 for US and 0.50 for Mexico
Impact of Revenue-Neutral Jindal Tax Swap
Repeals Personal & Corporate Income Taxes;
Hikes State Sales Tax Rate on Current Base

Income Group

- Lowest 20%
- 2nd 20%
- Middle 20%
- 4th 20%
- Next 15%
- Next 4%
- Top 1%

Tax Change, % of Income

-3.0% -2.0% -1.0% 0.0% 1.0% 2.0% 3.0% 4.0%
No Income Taxes and Inequality

Louisiana would be like Bolivia: inequality stays as high as with pre-tax incomes.
What do sales taxes do to incomes?

Change in Income

1 2 3 4 5 6 7 8 9 10

Bolivia
Brazil