

# Louisiana's Tax Debate

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- ▶ Overview of the ongoing saga and debate
    - Professor Steven Sheffrin
  - ▶ Experience from other states
    - Professor James Alm
  - ▶ Distributional issues
    - Professor Nora Lustig
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# 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<sup>th</sup> lowest per capita)

TAX	Analysis
Personal Income tax	Moderate rates, could eliminate deductions for federal taxes and excess itemized deductions to lower rate
Corporate income tax	Moderate rate, not terribly aggressive, could eliminate deduction for federal income tax for a lower rate
Franchise tax	Distorting tax on equity capital—should be eliminated (\$85 million)
Sales taxes	Combined state and local rates very high. Multiple tax bases
Sales tax administration	Too many collectors—not consistent with proposed federal legislation on taxation of internet sales
Property taxes	Very low because of generous homeowners exemption. Forces use of high local sales taxes.

# *Are there lessons from other states?*

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

Arizona	California	Florida
Hawaii	Maine	Minnesota
New Mexico	New York	North Carolina
North Dakota	Ohio	Oklahoma
Oregon	South Carolina	Tennessee
Utah	Washington	Wyoming

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

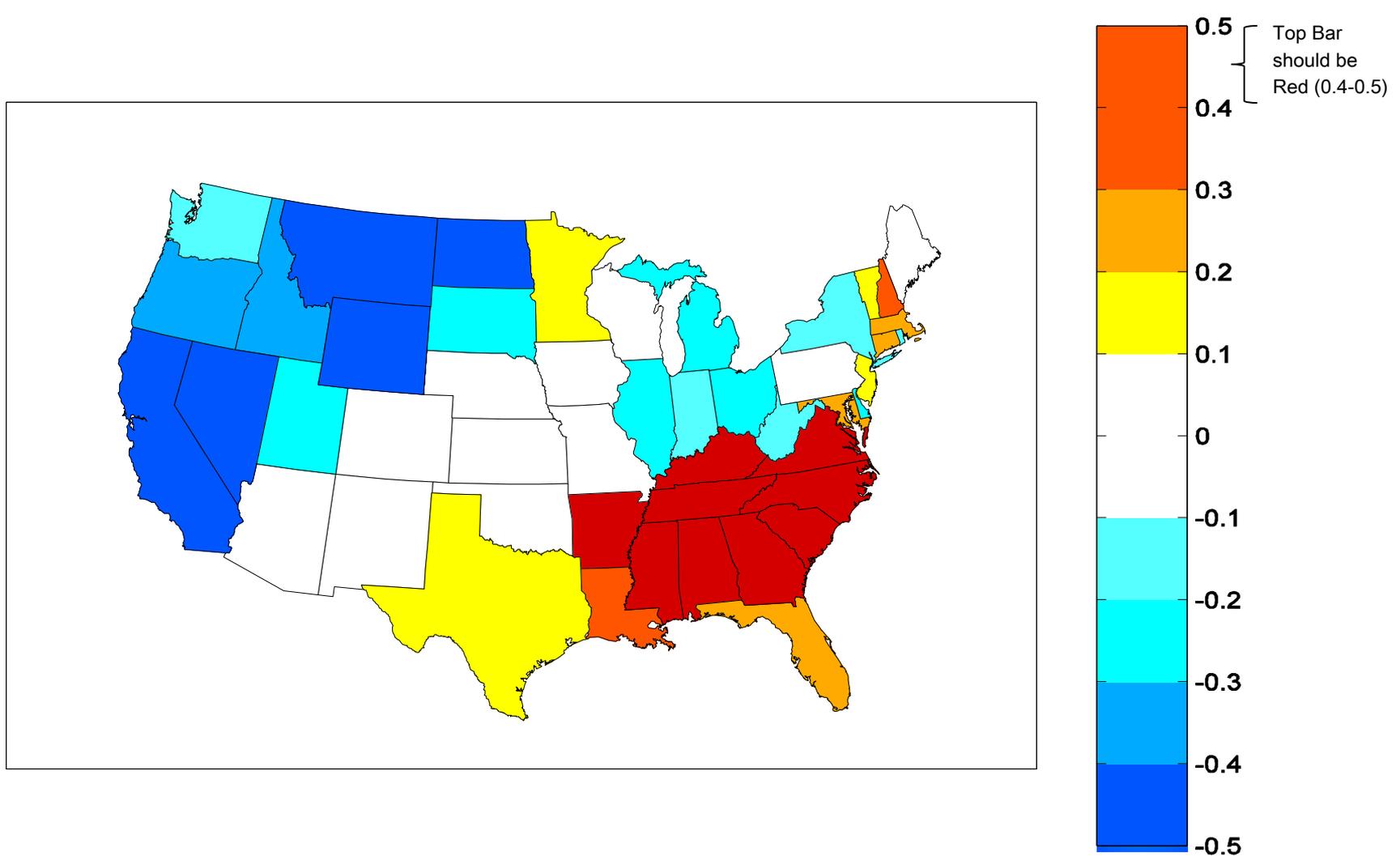
Washington

Wyoming

→What is the evidence on growth?



# Difference between Individual State and U.S. Average Growth Rates, 1947-2007

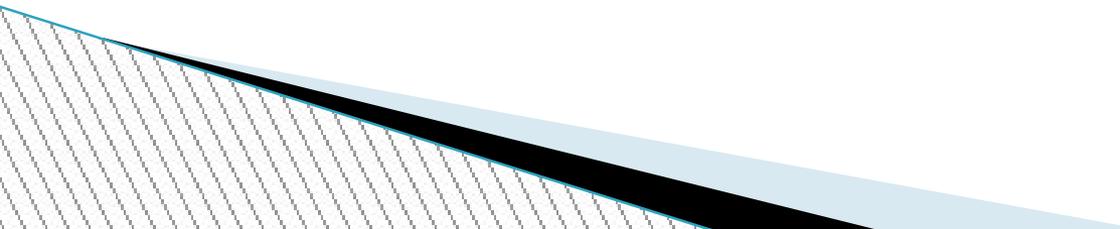


# Figure 1: Economic Performance Among the States, 2002-2011



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).

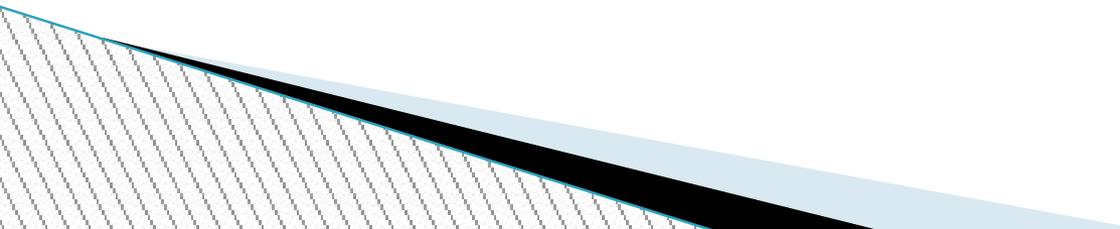
## *So:*

- ▶ 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.
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## *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.

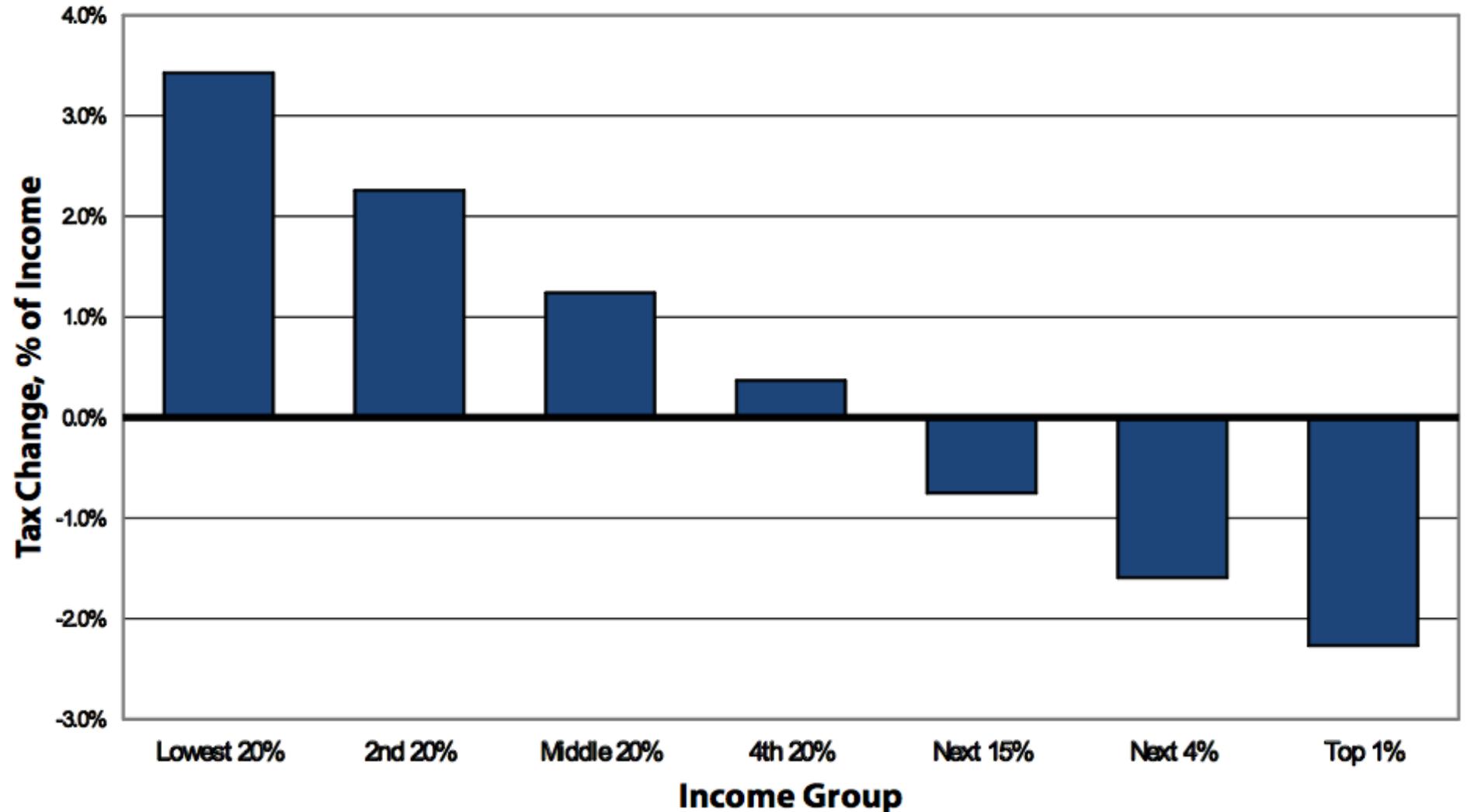
# *And: 7 steps of state tax reform*

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
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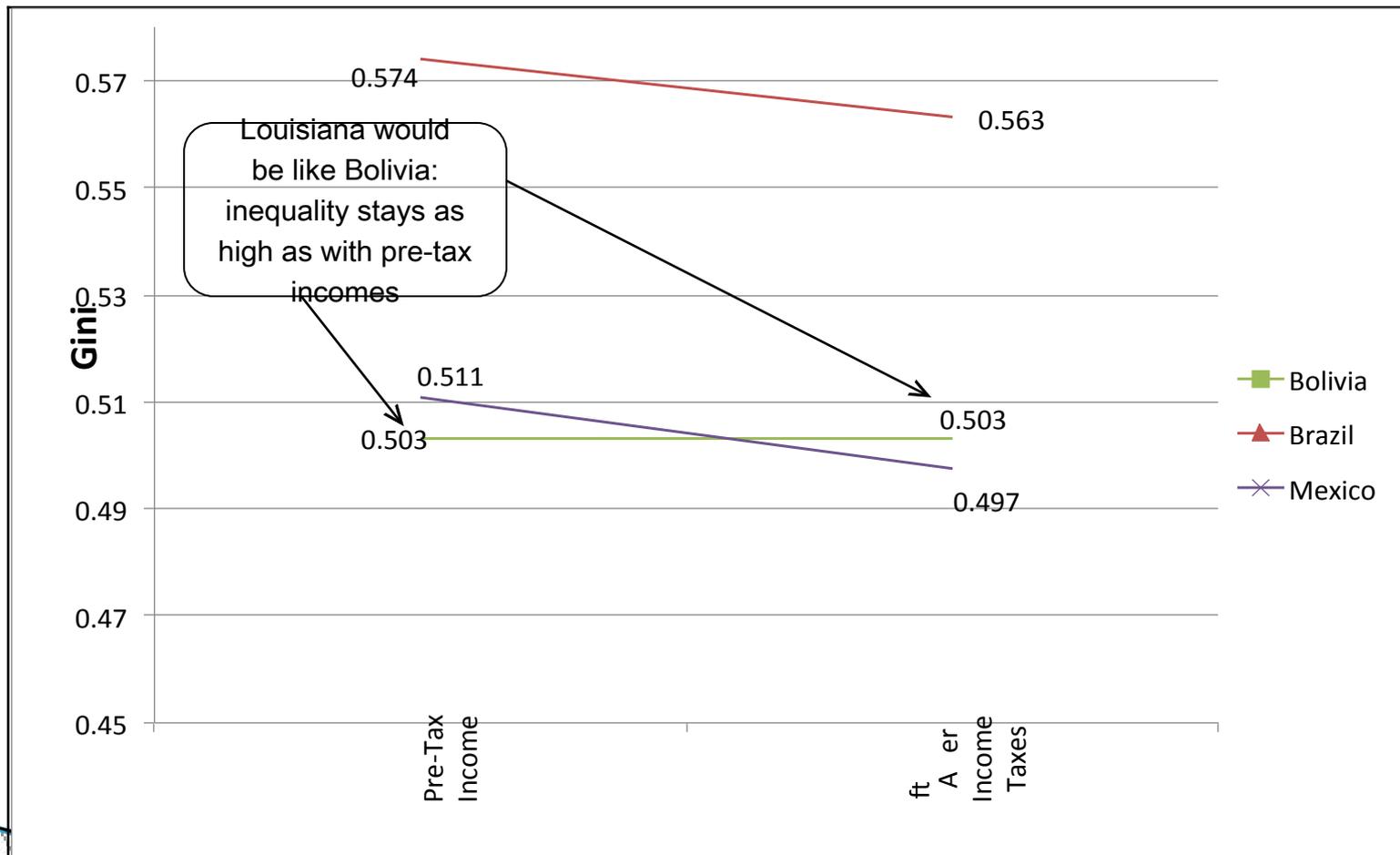
# Inequality & Poverty in Louisiana

- ▶ 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**



# No Income Taxes and Inequality



# What do sales taxes do to incomes?

