

# Department of Revenue

Presentation to

## Revenue Study Commission

*Created by SCR 103 of the 2012 Regular Legislative Session*



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# Mission

LSA R.S. § 36:451(B)

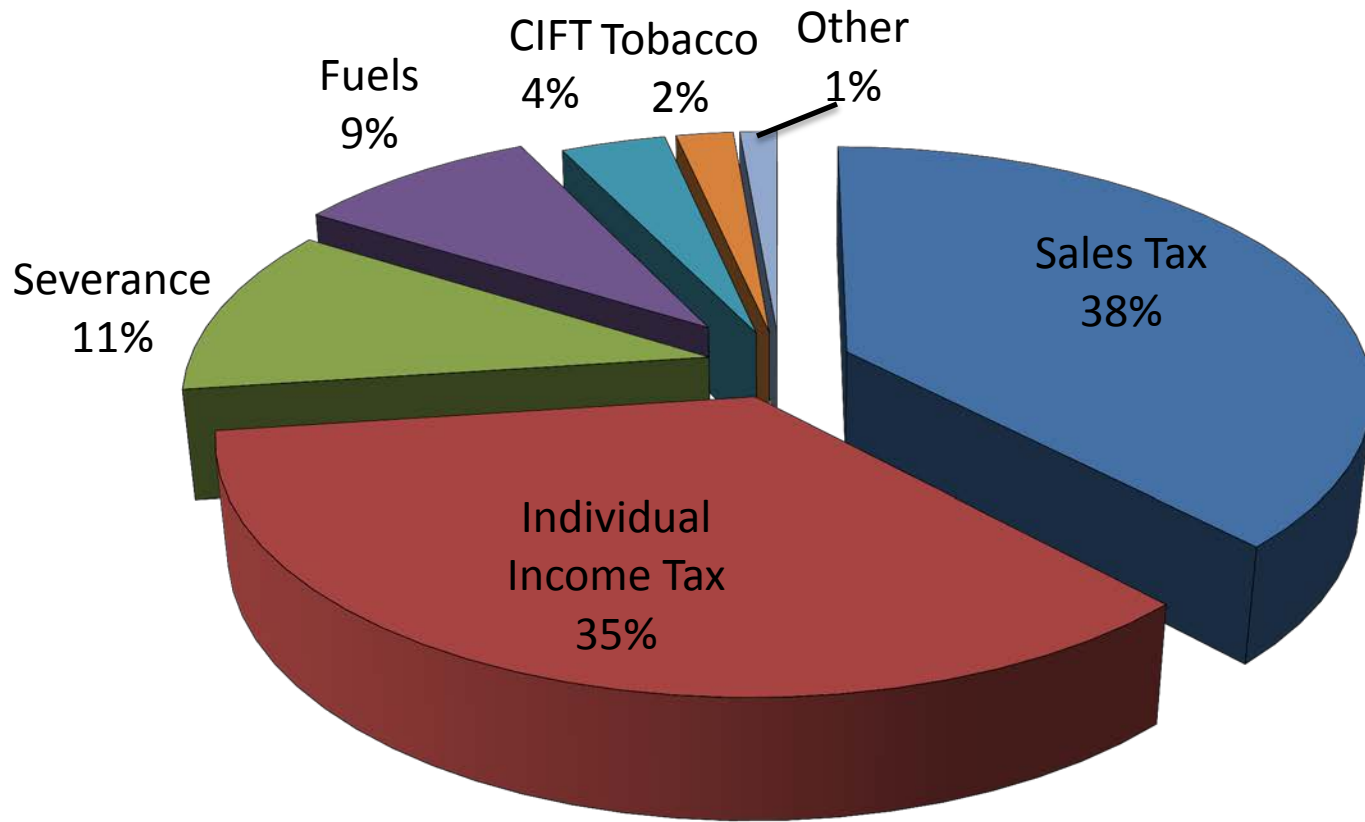
“The Department of Revenue, through its offices and officers, shall be responsible for assessing, evaluating, and collecting the consumer, producer, and any other state taxes specifically assigned by law to the department, and shall have authority generally for alcoholic beverage control and the regulation of charitable gaming.”

*Essentially ...*

*“to fairly and efficiently collect state revenues to fund public services; and to regulate the sale of alcoholic beverages, tobacco, and charitable gaming within Louisiana.”*

# LDR Revenue Sources

Source: Revenue Estimating Conference



**FY 10/11 \$6,879.5 Million**

# LA Tax Structure

- Majority of tax revenue generated from sales tax, personal income tax, and severance tax.
- 78% of general fund revenue is collected by LDR.
- The REC adopts the fiscal impact of exemptions upon their enactment.

## Percentage of Tax Collected by Type

	<b>Sales</b>	<b>Personal</b>	<b>Corporate</b>	<b>Severance</b>	<b>All Other</b>
<b>U.S. Average</b>	31%	34%	5%	2%	28%
<b>Southern Average*</b>	38%	24%	4%	3%	31%
<b>Louisiana</b>	32%	27%	2%	8%	31%

Source: U.S. Census Bureau, 2011 Annual Survey of State Government Tax Collections

\* Southern Regional Education Board member states

# Tax Structure - Rankings

- *State Business Tax Climate Index* measures all 50 states on corporation, individual income, sales, unemployment insurance, and property taxes.
- Overall, LA ranks #32 in the U.S.
- Corporation income component = #17
- Individual income component = #24
- Sales tax component = #49

# Sales Tax

- Base: Sales of tangible personal property, rental or lease of movable property, and sales of selected services.
- Rate: 4%
- Highest combined state and local average sales tax rate in the nation (*Tax Foundation, 2012*)
- Average local option rate = 4.84%
- 191 exemptions

# Individual/Personal Income Tax (PIT)

- Base: Federal adjusted gross income

Rate: Married filing jointly, qualified surviving spouse	
Rate	Taxable Income
2%	First \$25,000
4%	Next \$75,000
6%	Over \$100,000

Rate: Single, married filing separately, or head of household	
Rate	Taxable Income
2%	First \$12,500
4%	Next \$37,500
6%	Over \$50,000

- Effective rate is  $\sim 2.3\%$
- Federal income tax deduction and other exemptions lower tax burden
- 78 exemptions

# Severance Tax

- Base: Severance of the oil and gas from the soil or water
- The capable tax rate for oil and condensate is 12.5% of value and accounts for over 95.6% of the oil and condensate tax collections.
- The capable rate for gas, presently 14.8¢ per MCF, is responsible for over 99% of total gas tax collections.
- There are also reduced tax rates for lower-producing oil and gas wells.
- 25 exemptions



# Corporation Income Tax

- Base: Income earned within or derived from sources within Louisiana
- Rates:
  - 4% on the first \$25,000 of taxable income
  - 5% on the next \$25,000
  - 6% on the next \$50,000
  - 7% percent on the next \$100,000
  - 8% on the excess over \$200,000
- Exemptions reduce the tax burden

# Corporation Franchise Tax

- Base: Capital stock, surplus, and undivided profits
- Rates:
  - \$1.50 per \$1,000 on the first \$300,000 of taxable base
  - \$3.00 per \$1,000 over \$300,000
- Legislation was passed to phase out the franchise tax on borrowed capital, with full phase out in franchise tax year 2011.
- Combined, there are 97 CIFT exemptions.

# Tax Exemptions

- Present in all of Louisiana's major tax types; the first was enacted in 1912
- Utilized to accomplish policy goals or generate some activity or behavior by reducing the taxpayer's burden
- 468 exemptions currently exist, 25 of which are authorized by the State's Constitution or prohibited from taxation by federal law
- Catalogued in the Tax Exemption Budget ("TEB"), first published in 1983

# Tax Exemption Reports in Other States

- 44 states (including DC) produce reports that provide data on the value of tax credits, deductions, and exemptions.
- LA's report catalogs every tax exemption, every year, for every major tax type, and includes fiscal impact data for 5 years
- In terms of frequency and breadth, LA publishes one of the most comprehensive, publicly available reports in the region.
- Many states do not publish their reports on an annual basis, or include exemptions pertaining to all tax types.
- LA is one of 13 states "Leading the Way" in terms of evaluating tax incentives for economic development. (*Pew Center on the States, 2012*)

	Publicly Available	Frequency	Fiscal Impact Data
Alabama	N/A	N/A	N/A
Arkansas	No	Unknown (not publicly available)	Unknown (not publicly available)
Florida	Yes	Annual	1 year
Georgia	Yes	Every 2 years	3 years
Kentucky	Yes	Every other year	3 years
Louisiana	Yes	Annual	5 years
Mississippi	Yes	Annual	1 year
North Carolina	Yes	Every 2 years	1 year
Oklahoma*	Yes	Every 2 years	1 year
South Carolina	Yes	Annual	2 years
Tennessee	Yes	Annual	1 year
Texas*	Yes	Every other year	6 years
Virginia	Yes	Every year	1 yr. (only sales tax)
West Virginia	Yes	Every year (exemptions rotate)	1 year

\* Not a member state of the Southeastern Association of Tax Administrators

# TEB Requirements (R.S. 47:1517)

- Due March 1 of each year; submitted to Governor and legislature
- Provide statutory citation and purpose
- Revenue impact estimates for 5 years (2 years past, current year, and 2 future years)
- Legislative origin and effective date
- Description of beneficiaries
  
- Cost of administration and implementation
- Determination of exemption's effectiveness in terms of fulfilling purpose for which it was enacted
- Assessment of whether exemption is most fiscally effective means of achieving its purpose
- Evaluation of whether unintended or inadvertent effects, benefits or harm was caused by the exemption, including conflicts with other state laws or regulations
- Evaluation of whether the exemption simplifies or complicates the tax statutes

# TEB Data Sources for Fiscal Estimates

- Best data is from Louisiana tax returns – not always available
- When tax return data is not available, alternatives are used, e.g., information from specific taxpayers or estimates from the LFO

# Recent TEB-Related Legislation

## Acts 365 (2011)

- House Ways & Means and Senate Revenue and Fiscal Affairs shall conduct hearings on the TEB every odd-numbered year
- The committees shall analyze tax exemptions that have caused a revenue loss to the State of \$10M or more in any of the last 3 fiscal years
- Committees *may* report findings or recommendations to the legislature



# Definition of Tax Exemption

## R.S. 47:1517 (E)

- Tax exemptions refer to “. . . such statutes, which allow a special exclusion, exemption, or deduction from gross income or sales or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.”

# Definitions of Various Exemptions

- A ***tax exemption*** prevents taxation on an item or class of items that would normally be taxed by law.
- A ***tax deduction*** reduces taxable income.

# Credit

- A ***tax credit*** is a dollar for dollar reduction of tax liability.
- Tax credits can be *nonrefundable* or *refundable*
  - *Refundable*: May reduce tax liability to zero; any remaining credit will be refunded
  - *Nonrefundable*: May reduce tax liability to zero

# Example of Deduction

**Scenario:** My federal adjusted gross income is \$100,000. I have a deduction of \$15,000. I am married and filing jointly with no dependents.

My LA Taxable Income is calculated in this manner:

Federal AGI	\$100,000
Deduction	<u>-\$15,000</u>
My LA Taxable Income	\$85,000

My LA Tax Rate*	5% <i>(this rate used for demonstration purposes only)</i>
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**My LA Tax Liability (before credits)**

$$\mathbf{\$85,000 \times .05 = \$4,250}$$

If I have credits, I would then subtract them from the \$4,250 tax liability.

\* This rate is used for demonstration purposes only.

# Nonrefundable Credit Example

Example 1 – Nonrefundable credit with tax liability greater than tax credit available

My LA tax liability is \$2,000. I have a credit of \$500.

LA Tax Liability	\$2,000
Credit	<u>\$500 (nonrefundable)</u>
<b>New LA Tax Liability (after credit)</b>	<b>\$1,500</b>

Example 2 – Nonrefundable credit with tax liability less than tax credit available

My LA tax liability is \$300. I have a credit of \$500.

LA Tax Liability	\$300
Credit	<u>\$500 (nonrefundable)</u>
<b>New LA Tax Liability (after credit)</b>	<b>\$0 (\$200 of credit cannot be used)</b>

# Refundable Credit Example

## Example 1 – Refundable credit with tax liability greater than tax credit available

My LA tax liability is \$2,000. I have a \$500 refundable credit.

LA Tax Liability	\$2,000
Credit	<u>-\$500 (refundable)</u>
<b>New LA Tax Liability (after credit)</b>	<b>\$1,500</b>

## Example 2 – Refundable credit with tax liability less than tax credit available

My LA tax liability is \$300. I have a \$500 refundable credit.

LA Tax Liability	\$300
Credit	<u>-\$500(refundable)</u>
<b>New LA Tax Liability (after credit)</b>	<b>-\$200 (generates a refund)</b>

# Deduction vs. Credit

## Deduction

Income*	\$100,000
Deduction	<u>-\$500</u>
<b>New Income</b>	
<b>\$99,500</b>	
x Tax Rate**	5%
<b>New Tax Liability =</b>	<b>\$4,975</b>

## Credit

Income*	\$100,000
LA Tax Liability	\$5,000
Credit	<u>-\$500</u>
<b>New Tax Liability</b>	<b>\$4,500</b>

**Difference is \$475.**

\* Adjusted gross income

\*\* Rate used for demonstration purposes only

# Refundable and Nonrefundable Credits Across Tax Types (FYE 6-11)

Individual Income/PIT Credits = 52	
Refundable	Nonrefundable
20	32

Sales Tax Credits = 4	
Refundable	Nonrefundable
1	3

Corporate Income Tax Credits = 36	
Refundable	Nonrefundable
13	23

Corporate Franchise Tax Credits = 22	
Refundable	Nonrefundable
10	12

Tax Incentives and Exemption Contracts (Credits) = 25	
Refundable	Nonrefundable
9	16

Total credits = 139



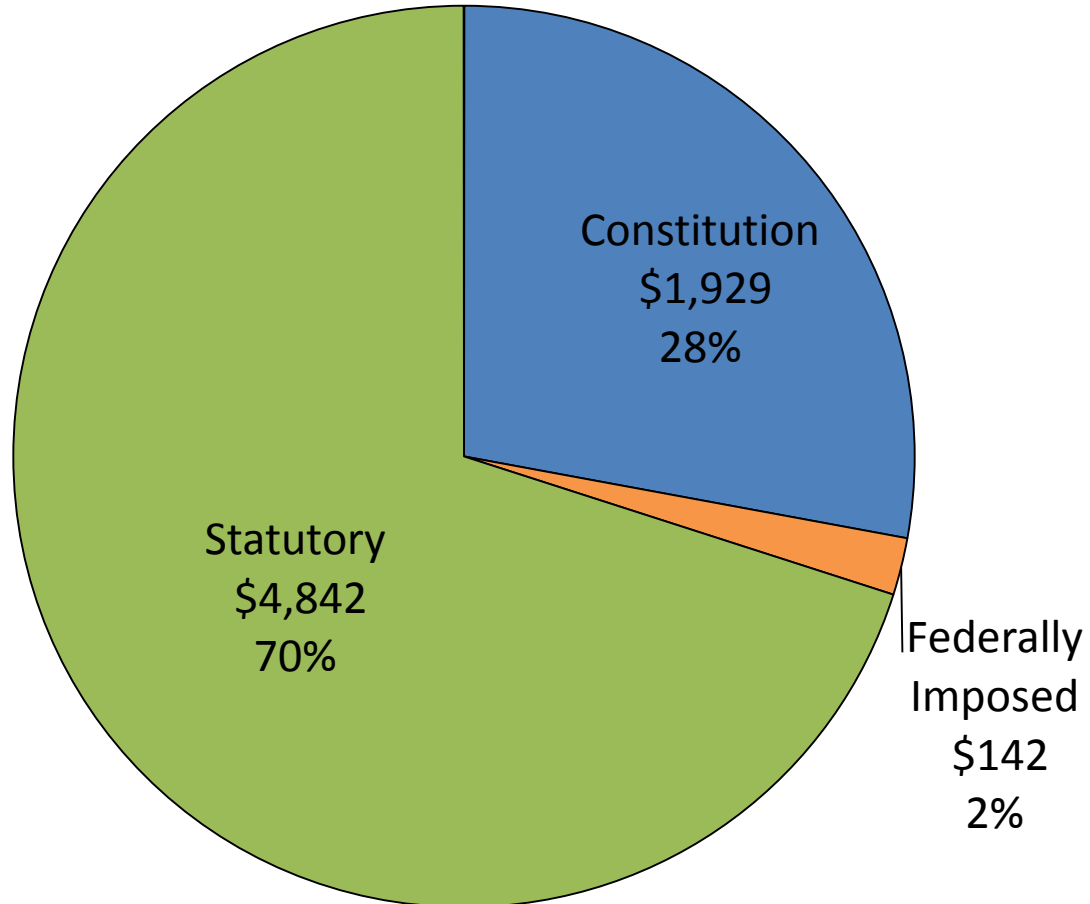
# Rebates

- There are 6 rebate mechanisms currently in law
  - Enterprise Zones (51:1787)
  - LA Quality Jobs (51:2451-2462)
  - Rebate for motor vehicles for use by persons with orthopedic disabilities (47:305.69)
  - Digital interactive media and software tax credit – optional (47:6022)
  - Louisiana Mega Project Energy Assistance Rebate (51:2367)
  - University Research and Development Parks (17:3389)
- New rebates from the 2012 legislative session
  - Student Tuition Organization Rebate (47:6301)
  - Corporate HQ Relocation Rebate (51:3111 – 3115)
  - Competitive Projects Payroll (51:3111 )
  - Procurement Processing Company Rebate (39:100.126 and 47: 6301)

# Total Exemptions

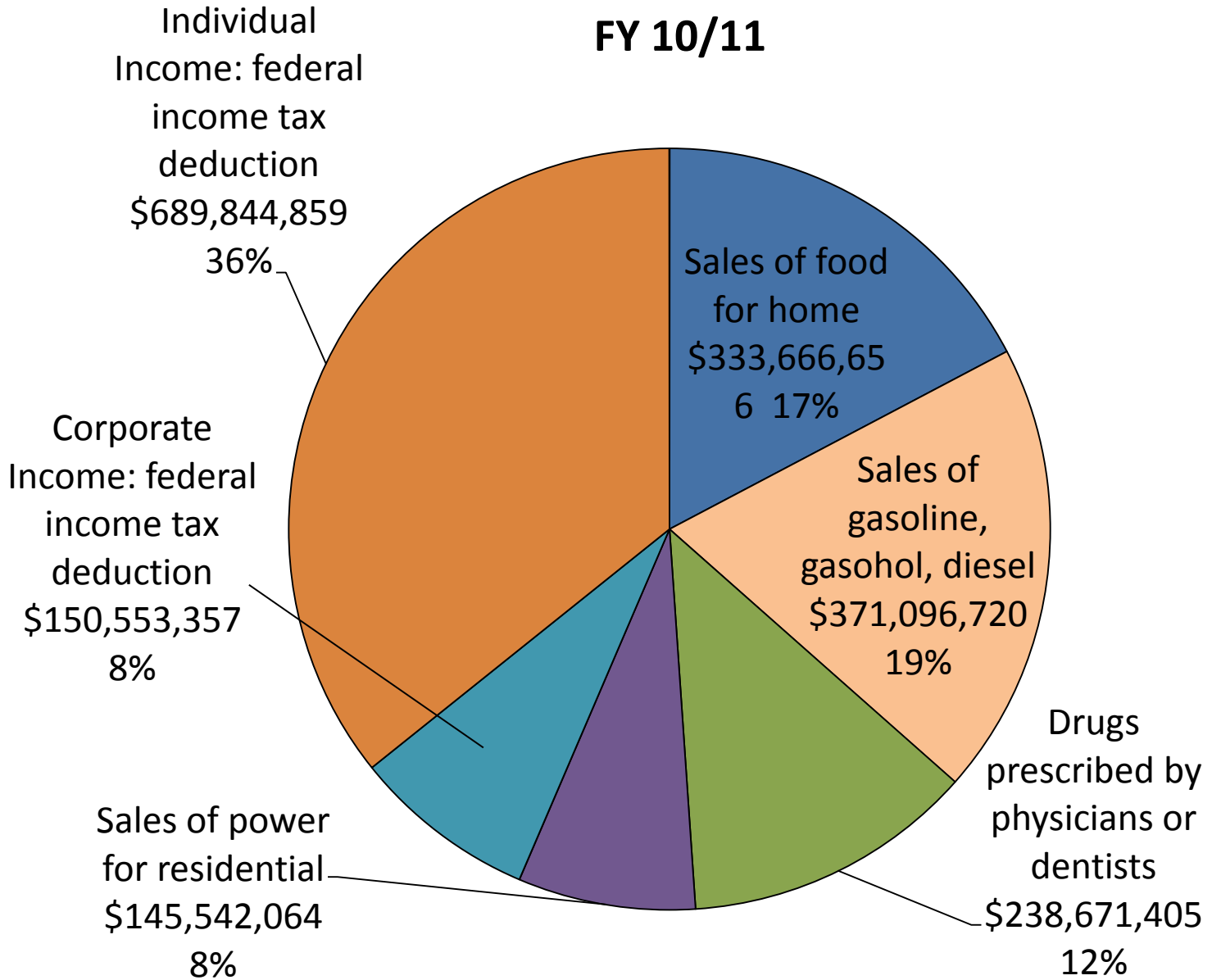
\$6,914 Million

FY 10/11



# Constitutional Exemptions

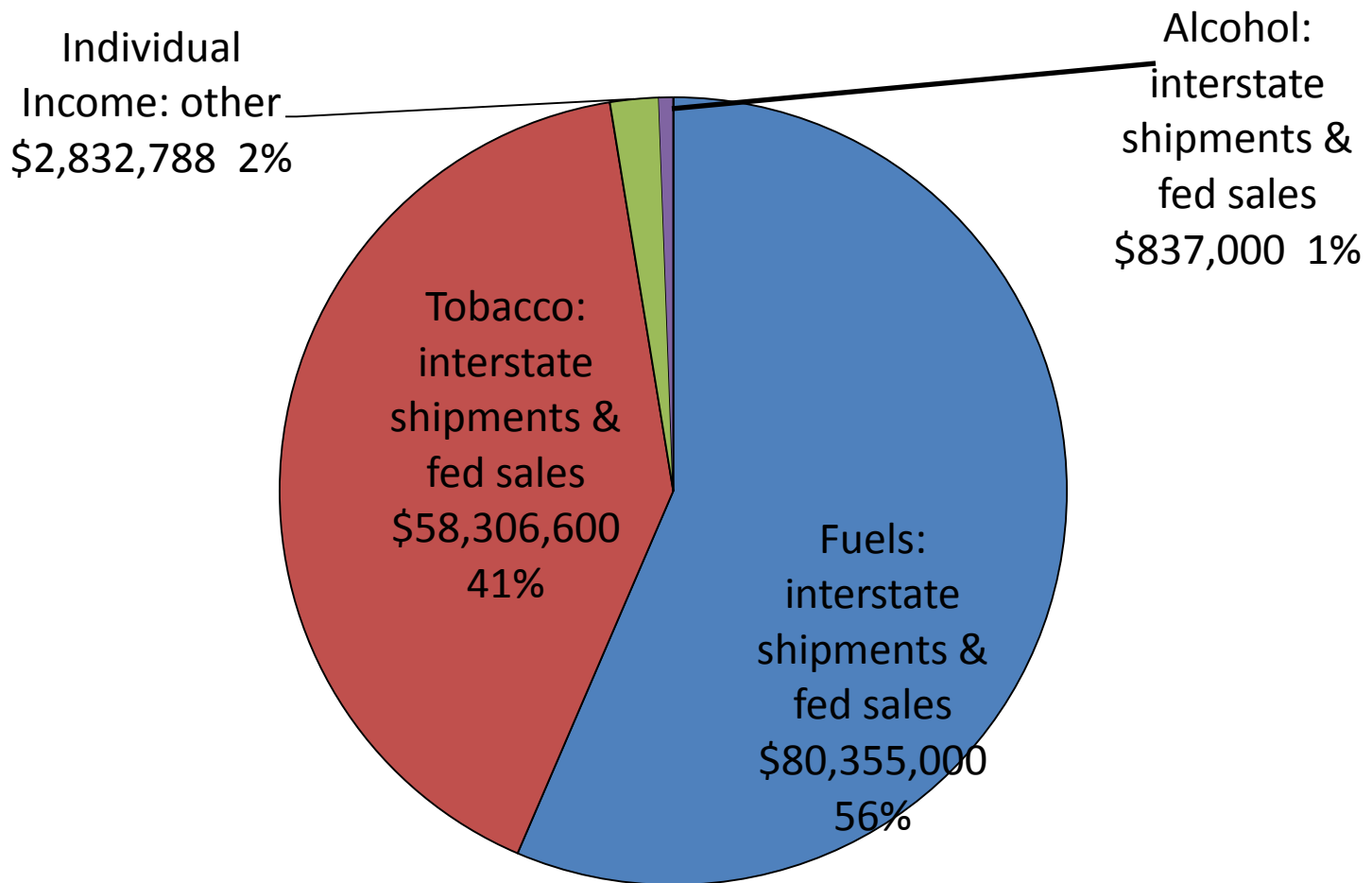
**\$1,929,375,061**  
**FY 10/11**



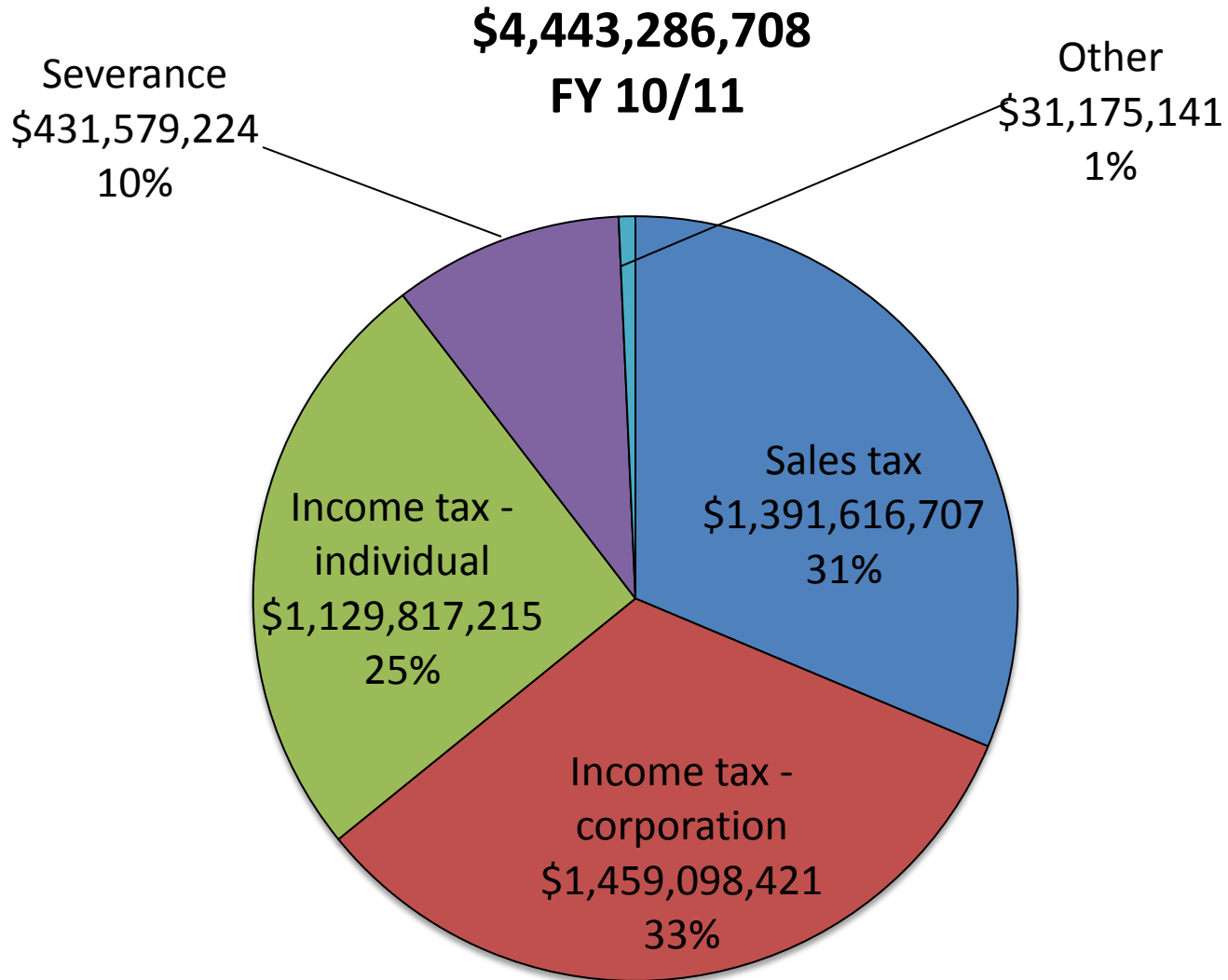
# Federal Exemptions

\$142,331,388

FY 10/11

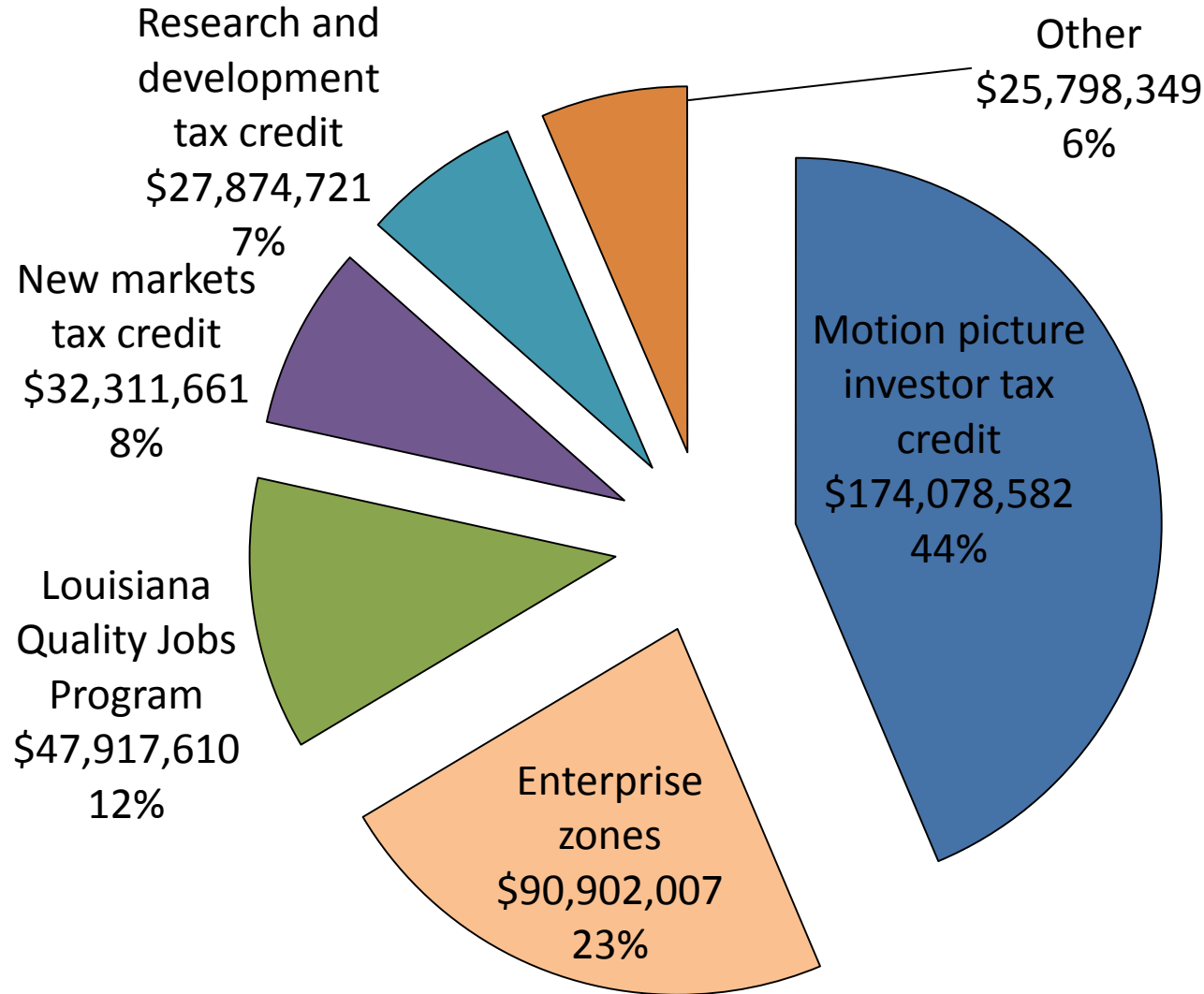


# Statutory Exemptions by Tax Type



# Tax Incentive and Exemption Contracts

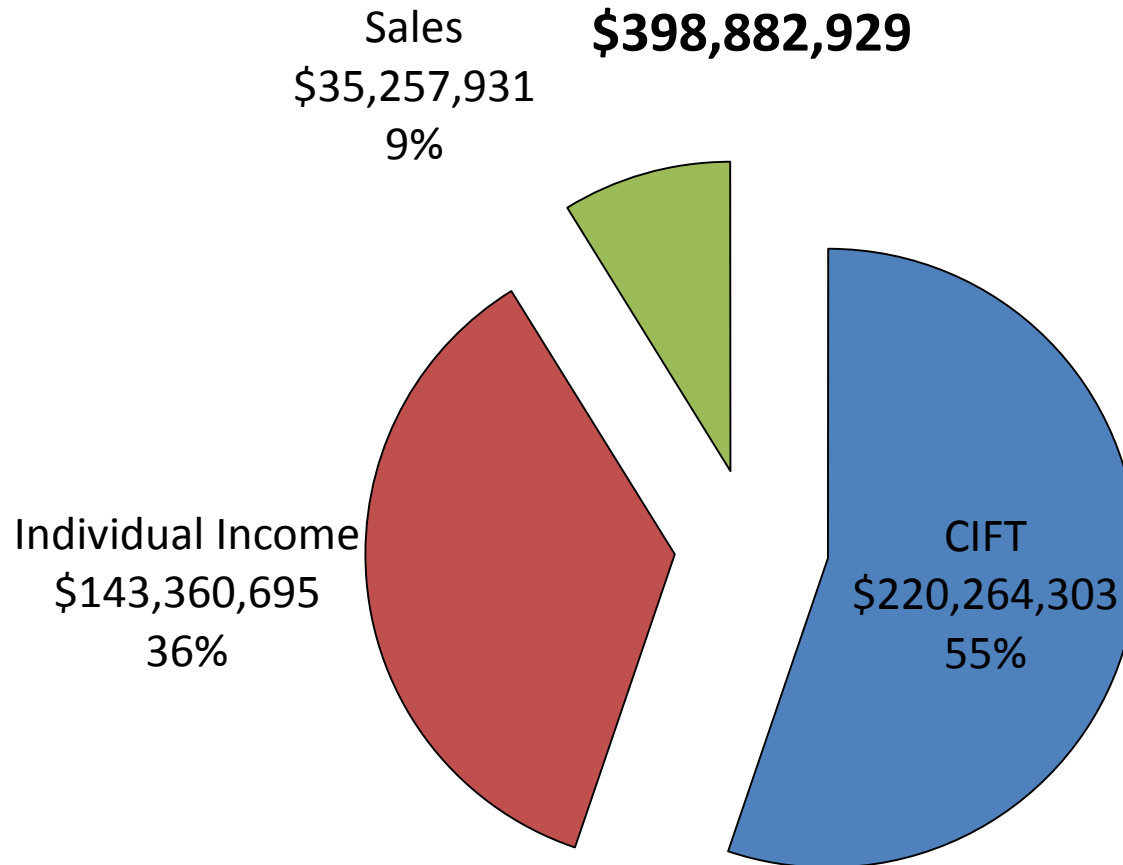
FY 2010/11  
\$398,882,929



# Tax Incentive and Exemption Contracts by Tax Type

FY 2010/11

**\$398,882,929**



# Top 10 Exemptions

(by dollar value)

Exemption (Tax Type)	Authority	FY 10-11 Value
1. Federal income tax deduction (PIT, CIFT)	LA Constitution	\$841M
2. Subchapter S corporation (CIT)	Statutory	\$435M
3. Inventory Tax/Ad Valorem Tax Credit (CIFT, PIT)	Statutory	\$374M
4. Sales of gasoline, gasohol & diesel (Sales)	LA Constitution	\$371M
5. Net Louisiana operating loss deduction (CIT)	Statutory	\$343M
6. Sales of food for preparation and consumption in the home (Sales)	LA Constitution	\$334M
7. Excess federal itemized deductions (PIT)	Statutory	\$332M
8. Sales of electric power/energy – non-residential (Sales)	Statutory	\$257M
9. Insurance company premium tax (CIT)	Statutory	\$249M
10. Personal exemption/standard deduction (PIT)	Statutory	\$244M



# Top 10 Exemptions – Sales

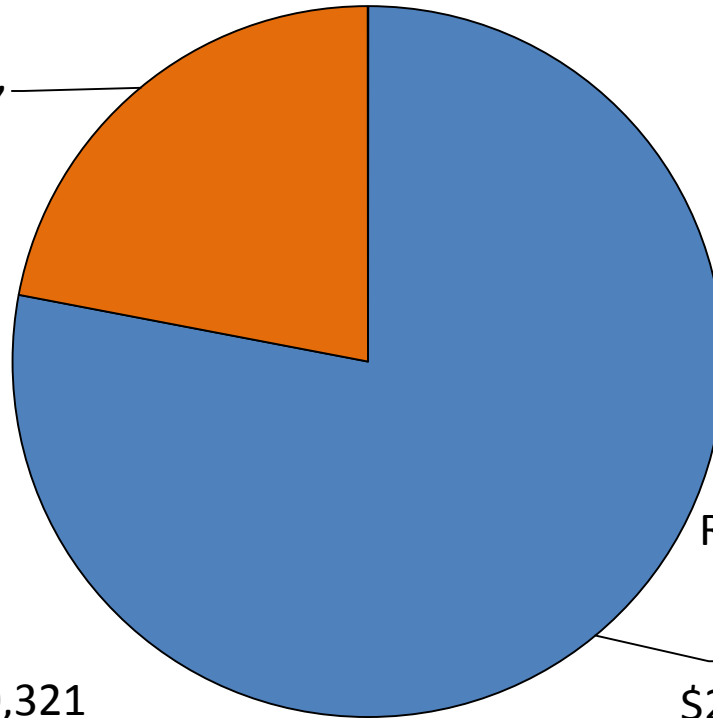
(by dollar value)

Exemption	Authority	FY 10-11 Value
1. Sales of gasoline, gasohol & diesel	LA Constitution	\$371M
2. Sales of food for preparation and consumption in the home	LA Constitution	\$334M
3. Sales of electric power/energy – non-residential	Statutory	\$257M
4. Drugs prescribed by physicians or dentists	LA Constitution	\$239M
5. Purchases by state and local governments	Statutory	\$203M
6. Sales of electric power or energy – residential	LA Constitution	\$146M
7. Vendors compensation	Statutory	\$29M
8. Purchases of manufacturing machinery and equipment	Statutory	\$25M
9. Enterprise Zones	Statutory	\$18M
10. Louisiana Quality Jobs	Statutory	\$17M

# Sales: Other Exemptions

\$3,710,967,202  
FY 10/11

Revised  
definition of  
Sales: Other  
Exemptions,  
\$816,412,784 ,  
22%



Removed from  
Sales: Other  
Exemptions,  
\$2,894,554,418 ,  
78%

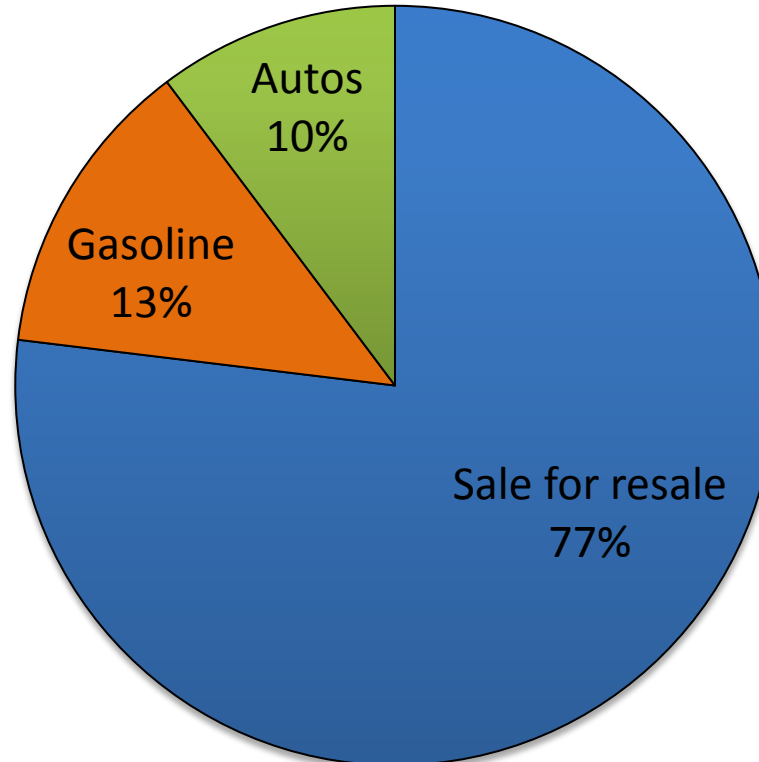
## Items removed:

- Sale for resale: \$2,226,580,321
- Auto: \$296,877,376
- Gasoline: \$371,096,720
- See next slide

# Removed from Sales: Other Exemptions

\$2,894,554,418

FY 10/11



# Top 10 Exemptions – Individual/PIT

(by dollar value)

Exemption	Authority	FY 10-11 Value
1. Federal income tax deduction	LA Constitution	\$690M
2. Excess federal itemized deductions	Statutory	\$332M
3. Personal exemption – standard deduction	Statutory	\$244M
4. Motion picture investor tax credit	Statutory	\$89M
5. Net income tax paid to other states	Statutory	\$82M
6. Social Security benefits exclusion	Statutory	\$67M
7. State employees, teachers, and other retirement benefit exclusion	Statutory	\$67M
8. LA Citizens Property Insurance Corporation assessment	Statutory	\$47M
9. Earned income tax credit	Statutory	\$46M
10. Dependent exemption/deduction	Statutory	\$31M

# Top 10 Exemptions – Corporation Income & Franchise Taxes (by dollar value)

Exemption	Authority	FY 10-11 Value
1. Subchapter S Corporation	Statutory	\$435M
2. Inventory tax/ad valorem tax credit	Statutory	\$362M
3. Net Louisiana operating loss	Statutory	\$343M
4. Insurance company premium tax	Statutory	\$249M
5. Federal income tax deduction	LA Constitution	\$151M
6. Motion picture investor tax credit	Statutory	\$85M
7. Enterprise Zones	Statutory	\$49M
8. Louisiana Quality Jobs	Statutory	\$31M
9. Ad valorem tax paid by certain telephone companies	Statutory	\$23M
10. Ad valorem tax credit for offshore vessels	Statutory	\$21M

# Top 10 Exemptions – Other Tax Types

(by dollar value)

Exemption (Tax Type)	Authority	FY 10-11 Value
1. Horizontal wells – natural gas suspensions (Severance)	Statutory	\$235M
2. Inactive wells – oil suspensions (Severance)	Statutory	\$65M
3. Stripper oil (Severance)	Statutory	\$39M
4. Incapable gas – well gas (Severance)	Statutory	\$29M
5. Tertiary recovery – oil suspensions (Severance)	Statutory	\$20M
6. Incapable oil (Severance)	Statutory	\$13M
7. Deep wells – oil suspensions (Severance)	Statutory	\$10M
8. Gas consumed in field operations (Severance)	Statutory	\$9M
9. Discount of six percent for tobacco stamps (Tobacco)	Statutory	\$7M
10. Discount for timely filing and payment by suppliers/permissive suppliers – gasoline (Petroleum)	Statutory	\$7M

“Other” includes severance, petroleum, tobacco, misc.

**THANK YOU**