

## **FINAL REPORT OF THE REVENUE STUDY COMMISSION**

The Revenue Study Commission was established pursuant to SCR 103 of the 2012 Legislative Session to study state revenue laws with respect to Louisiana's exemptions, credits, rebates, and other tax preference expenditures. The Commission is composed of the following members:

Representative Joel Robideaux, Chairman

Senator Robert Adley

Senator John Alario

Representative Taylor Barras

Senator Sharon Weston Broome

Representative Henry L. Burns

Senator Dan Claitor

Senate John L. "Jack" Donahue

Representative James "Jim" Fannin

Senator Ronnie S. Johns

Representative Chuck Kleckley

Representative Walt Leger, III

Senator Neil Riser

Representative Patrick C. Williams

Louisiana constitution and law authorize specific tax expenditures, including credits, exemptions, exclusions, deductions, rebate incentive payments, discounts and refunds. The Commission conducted 12 public hearings at which it considered all tax expenditures reported in the state's FY11/12 Tax Exemption Budget. The level of review for a particular tax expenditure was directly related to the availability of data with respect thereto.

The commission conducted hearings on the following days:

July 23, 2012: Department of Economic Development relative to tax expenditures including tax credits and rebate payments

August 15, 2012: Department of Revenue relative to the state's tax base, summary data regarding all tax expenditures, and the Tax Exemption Budget

August 16, 2012: Tax expenditures related to the state sales and use tax

September 7, 2012: Greg Albrecht, Legislative Fiscal Office, relative to policy analysis regarding estimates of the fiscal impact of tax expenditures

September 14, 2012: Continuation of review of tax expenditures related to the state sales and

use tax

- September 28, 2012: Continuation of review of tax expenditures related to the state sales and use tax
- October 2, 2012: Tax expenditures related to alcoholic beverage taxes, tobacco tax, gift tax, inheritance tax, public safety and utility taxes, hazardous waste tax, and the telecommunication tax
- October 12, 2012: Tax expenditures related to the individual income tax
- October 22, 2012: Continuation of review of tax expenditures related to the individual income tax
- November 28, 2012: Tax expenditures related to corporation income and franchise taxes
- December 10, 2012: Incentives and tax exemption contracts
- January 17, 2013: Tax expenditures related to severance tax and petroleum products taxes

At each hearing, public comment was received through both written submissions and oral testimony. A summary listing the witnesses who provided testimony will be provided in Addendum C, which document is still being prepared and will be released soon.

Videos of the Commission hearings are available on the House of Representatives' website at [house.louisiana.gov](http://house.louisiana.gov). Documents and other materials utilized by the Commission can be found on the Commission's website at [house.louisiana.gov/rc/](http://house.louisiana.gov/rc/).

During the course of its review, the Commission received assistance from the staff of the House Committee on Ways and Means, Senate Committee on Revenue and Fiscal Affairs, Legislative Fiscal Office, and the Department of Revenue.

#### GLOBAL ISSUES FOR CONSIDERATION

The Commission's review provided insight into the complexity and depth of the state's myriad tax expenditure policies. In light of this, the Commission offers for consideration by the Louisiana Legislature the following global issues related to those policies.

##### **1. Specific expectations:**

The legal authority for most tax expenditures lacks any expectation as to specific justifiable benefits to be realized by the citizens of Louisiana in relation to their cost to the taxpayer. If the legal authorization for a tax expenditure contained a clear public policy purpose and desired outcome for specific beneficiaries, meaningful review could

occur over time to determine whether that purpose and outcome were being achieved. A mandate for the reporting of specific achievements related to the receipt of preferential tax treatment could assist future legislatures in understanding the function and success of existing state policies. Further, the provision of such information in an easily understood approachable fashion would enhance opportunities for consideration by future policymakers.

A number of tax expenditures are administered by the Department of Economic Development. Legislation should be considered mandating reporting requirements for these expenditures which include information such as the number of jobs created, new businesses and business activity, an analysis of the impact of the contract on the state's economy compared to the cost to the state of the contract and an assessment as to the efficacy and success of the contract. The Revenue Study Commission requested this information for tax expenditures administered by the Department of Economic Development; however, as of the time of this report, this information has not yet been received.

Furthermore, these types of tax expenditures may be more successful if recipients or beneficiaries of these tax expenditures entered into contracts which included "clear, tangible goals" in order to receive the benefits, with some provision for the "clawback" of the benefits if the goal is not reached or, if reached, is not maintained for a certain period of time. Lastly, consideration should be given to requirements that give hiring priority to Louisiana residents.

For purposes of the tax expenditure review conducted by the Revenue Study Commission, it is noted that rebate payment programs administered by the Department of Economic Development were not included in the 2011-2012 Tax Exemption Budget. There is no readily available data on rebate payment programs and thus they were not part of the Revenue Study Commission's review for purposes of this report.

**2. No data:**

Little or no data exists relative to many tax expenditure programs which involve many hundreds of millions of dollars. This prevents any real consideration of the actual outcome of any public policy objective sought in the enactment of the preferential tax treatment. Mandatory reporting and collection of specific data could facilitate future review of the policies.

Testimony was provided regarding the challenge in obtaining data due to the fact that it is the filer of the form who controls what is entered on the Department of Revenue forms associated with obtaining a benefit. To varying degrees, it can be difficult for the state to craft forms to be used by persons filing for a tax expenditure such that the state would receive confirmatory data sufficient for future review of the function and success of the tax policy.

On the other hand, the commission urges the Department of Revenue to make it a priority to change tax forms and implement a new computing system upgrade to more accurately track the financial impact of the more costly exemptions and explore other ways to provide the data, such as sample analyses, as referenced in the Public Affairs Research Council of Louisiana's Open Letter of July 19, 2012 concerning the Revenue Study Commission.

**3. Future review and sunset:**

With a handful of exceptions, there is little or no formal review or oversight of a tax expenditure program's function and outcomes after enactment. Where feasible, a sunset schedule or other formal review process may be utilized to provide for periodic data-based cost-benefit analyses which measure success in achieving the public purpose and desired outcome for the intended beneficiaries of each tax expenditure program.

**4. Annual awareness of cost:**

Where appropriate and feasible, an annual cap on the amount of state revenue foregone for a particular tax expenditure could allow for more budget certainty.

**5. Insufficient time for development of estimated projected costs:**

The interval of time between the introduction of legislation providing for a tax expenditure and its enactment is often insufficient to allow for in-depth research and consideration of the potential state cost associated with the measure. Commercial software is available which could allow legislative staff to produce more thorough estimates for the fiscal notes for such legislation. The legislature may wish to consider investing in the economic modeling tools appropriate for this purpose.

## SPECIFIC TAX EXPENDITURES IDENTIFIED FOR FURTHER ACTION

**Addendum A** is a listing by tax type of tax expenditures which in the course of the Commission's review were identified for legislative action. This list includes tax expenditures which have expired, sunset, are underutilized, or are obsolete, etc.

**Addendum B** is a listing by tax type of tax expenditures which in the course of the Commission's review were identified for further review and potential legislative action. This list includes tax expenditures for which there may have been questions relating to public purposes, operation, underutilization, etc. and a commission member requested it be added to a list for potential further review.