

Louisiana Budget Project  
Testimony to the State Tax Structure Subcommittee  
House Committee on Ways and Means  
January 11, 2023

Thank you for taking up the important task of reviewing Louisiana's tax structure, and how it can better serve our state and its citizens. Louisiana desperately needs a strong, fair and sustainable tax structure in order to meet the needs of citizens who expect good schools, safe communities, good roads, access to affordable health care services, and a safety net for when people fall on hard times.

Any discussion of tax policy should start with two fundamental questions: How much revenue do we need to raise? And who should we raise that revenue from? Unfortunately, Louisiana's tax structure falls short on adequacy, sustainability and fairness.

- **Louisiana's current revenue structure is inadequate.** Two years ago the chief economist of the Legislative Fiscal Office, Greg Albrecht, [published a study](#) that looked at the size of Louisiana's state government compared to other states. It found that our state is generally in the bottom one-third of states when looking at the share of our state economy that goes to support the state government.
- We see the results of this in the budget. Even in the current year - when revenues are strong by historical measures - there are significant unmet needs across the state.
  - Our teachers are paid several thousand dollars below the Southern and national average, which is making it harder for school districts to ensure that every classroom has a strong, highly qualified teacher.
  - Our most vulnerable children are victims of a child welfare system that is broken, in part because the state cannot pay enough to attract case workers.
  - Our early care and education system is being supported by \$200 million in temporary federal funding that needs to be replaced next year with state funding, or else 16,000 young children will lose their access to the high-quality child care services they are currently receiving.
- **Louisiana's tax structure is also unfair**, in that people at the bottom of the income ladder pay a higher percentage of their income in state and local taxes than those at the very top. The [Institute on Taxation and Economic Policy](#) - ITEP - calculates that households in the lowest 20 percent of income, making less than \$17,100 per year, pay nearly 12% of their income in state and local taxes, while those in the top 1% pay a little over 6% of their income in taxes:
- This, of course, is because of the type of taxes we charge at the state and local level. As you know, Louisiana has the second-highest combined sales tax rate in the country, while our per-capita income tax collections are near the bottom (No. 37 in the country, [according to the Tax Foundation](#) - and only 41 states have a personal income tax).

- **Our tax structure is unstable.** If this Legislature does nothing, Louisiana's general fund revenues will shrink by at least \$800 million a year by 2025. This is because of tax policy that's already on the books: A temporary .45-cent sales tax that expires at the end of the 2025 fiscal year, and the decision to shift vehicle sales taxes from the state general fund to a transportation trust fund. This \$800 million is revenue that supports public schools and college campuses, hospitals and nursing homes, and all the other services that Louisianans depend on.

As you think about ways to reform this inadequate, unfair and unstable tax structure, you can take two basic paths: You could take actions that end up cutting revenue - by, for example, eliminating the income tax and replacing some - but not all - of the revenue with other taxes. If you decide that a net tax cut is the way to go, the result will be even less revenue to support the services people depend on. Our tax structure would become more inadequate.

Another alternative is to restructure taxes in a revenue-neutral way - to raise the same amount of money, only in a different way. If that is the path you choose, then the key variable becomes fairness: Which groups of Louisiana citizens or businesses should pay more - and who should pay less - and why?

Louisiana's income tax is the most progressive part of our current tax structure, as the highest rates apply to those who can most easily afford to pay. Eliminating the income tax - or replacing the current structure with a flat rate - would inevitably shift the responsibility for paying taxes from wealthy corporations and households to those who can least afford to pay.

Instead of tampering with the income tax, the Legislature should look for ways to replace the revenue that will soon disappear from the general fund, and to do so in a way that makes Louisiana's revenue structure more adequate, fair and sustainable.

- Provided by Stacey Roussel, Deputy Director, on behalf of Jan Moller, Executive Director of Louisiana Budget Project