

# Louisiana Budget Basics

Louisiana Budget Project

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# About Louisiana Budget Project

Provides independent, nonpartisan research and analysis of public policy issues and their impact on low- and moderate-income Louisiana families

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# Louisiana's Experience

- When the Great Recession began, Louisiana was in the middle of an unprecedented (but mostly artificial) boom that brought record surpluses
- Then revenues **plunged** from \$10.1 billion in FY 2008 to a low of \$7.2 billion in FY 2010 – a 29 percent drop

# Why Did Revenues Drop?

The weak economy is only partly responsible for the revenue drop between 2009-2011:

- 52 percent due to weak economy
- 27 percent due to tax cuts (Stelly Plan repeal and growth of tax exemptions)
- 21 percent due to mineral revenue decline

Total loss over 2 years: nearly \$3 billion

- Source: Legislative Fiscal Office

# Fiscal Effect of Stelly Repeal

(in millions)	FY08	FY09	FY10	FY11	FY12	5-Year Total
Excess Itemized Deductions	\$152	\$250	\$255	\$260	\$265	\$1,182
Bracket Changes	N/A	N/A	\$359	\$251	\$262	\$872
Total Cost	\$152	\$250	\$614	\$511	\$527	\$2,054

**Source:**

Department of Revenue for Excess Itemized Deductions, except FY12, which is LBP estimate  
 Legislative Fiscal Office for Bracket Changes

# Revenues are not recovering

- Even as the economy recovers, state revenue growth has been sluggish at best
- Louisiana is taking in the same amount of revenue (adjusted for inflation) as in 1998, even though the population has grown by 150,000 and the need for services has increased

# Where are other states?

- Louisiana was one of only **10 states** to experience mid-year shortfalls in 2011-12
  - Louisiana's \$471 million mid-year gap was the **largest** in the country
- The states that took a more “balanced approach” to the recession that included targeted cuts and new revenues are starting to see surpluses again – **Michigan, California**

# Enough is enough!

- Five straight years of mid-year cuts
- Another **\$166 million** in cuts in December 2012 – affecting battered women, mental health care for children, the nurse-family partnership and other critical services
- But the current-year budget is still \$278 million out of balance (Legislative Fiscal Office)

# 2013-14 Executive Budget

The 2013-14 budget started with a **\$1.3 billion shortfall** that is patched with a mixture of cuts (\$280M), not funding inflation (\$350M), new federal dollars (\$215M) and one-time dollars (\$435M)

More than 10,000 jobs eliminated, 2/3 of them in LSU hospital system

# Cuts have had a serious impact

- Five straight years of frozen funding for public schools will mean \$560 less per student
- State support for colleges and universities cut by \$625 million and counting. Tuition has climbed 49 percent
- LSU hospital system is being defunded and largely privatized; continued uncertainty puts patients and medical education at risk

# Executive Budget

- LSU Health Care Services Division:
  - 2012-13 budget: \$825.5 million
  - 2013-14 budget (proposed): \$44.9 million

**DIFFERENCE: \$780.6 million**

No details yet on public-private partnerships

# The Bottom Line

- It is no longer plausible to argue that Louisiana has a “spending problem.” The evidence is crystal clear: More revenue is needed to fund critical services

# Public Reaction

- 68% say budget has been cut enough
- 89% concerned about cuts to LSU hospitals
- 80% said Louisiana residents will lose access to health care

(Source: Southern Media & Opinion Research)

# LBP Principles for Tax Reform

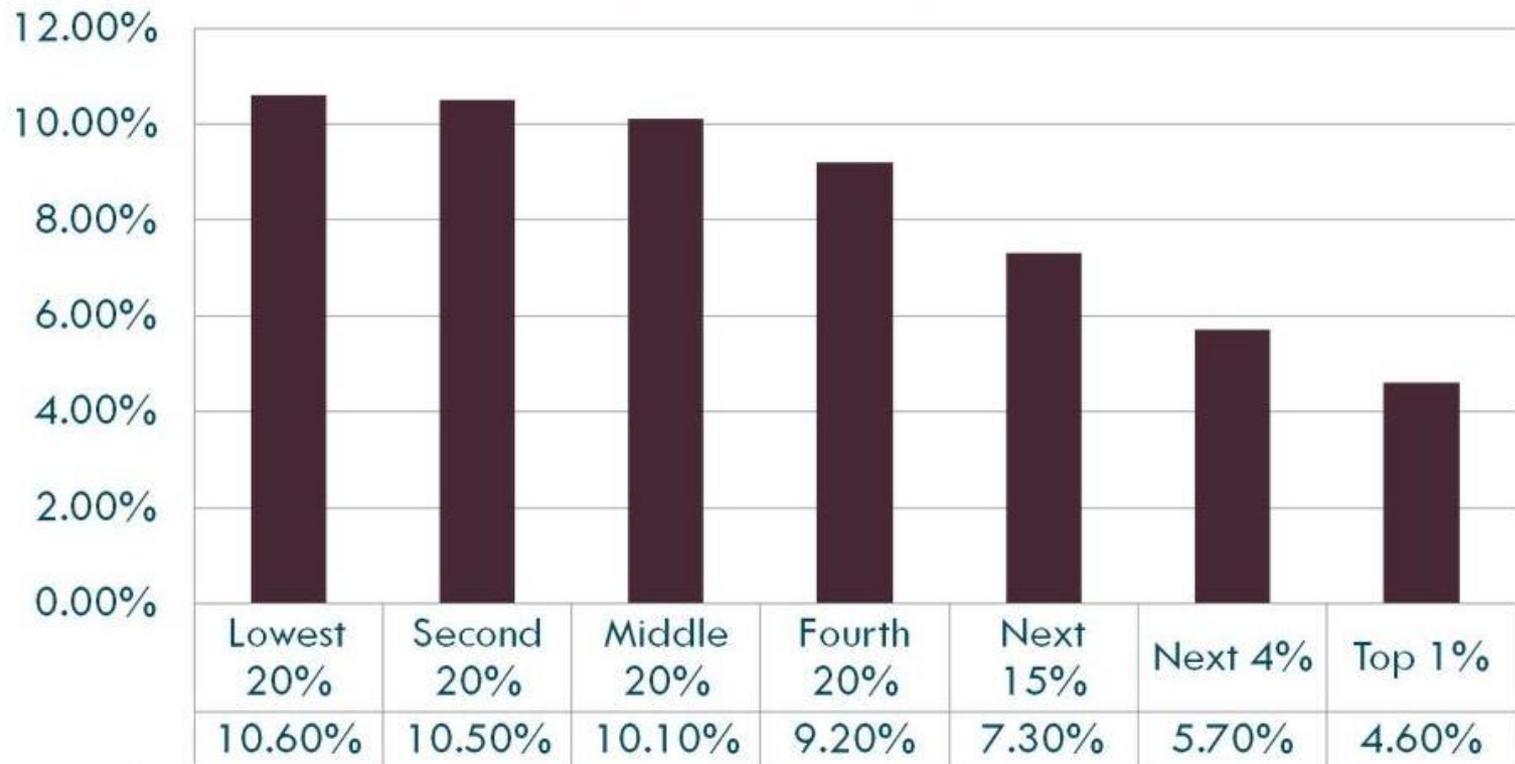
- Must maintain or increase the progressivity of the state's currently regressive tax code
- Must raise the revenue that we need
- Reforming exemptions is a clear way to achieve both goals of revenue and equity at the same time

# The Governor's Plan

- The governor wants to abolish individual and corporate income taxes and make up the difference with higher sales taxes and reduced exemptions.
- Wants it to be “revenue neutral”
- This would create a **TAX SHIFT** that transfers the burden from upper-income households to families in the middle and bottom.

# Who Pays in Louisiana?

Shares of Family Income for Non-Elderly Taxpayers



Source: ITEP

# Louisiana's Taxes Are Low

State Rank	Total State & Local Taxes (as percent income)
1. New York	12.8
2. New Jersey	12.4
3. Connecticut	12.3
<b>47. Louisiana</b>	<b>7.8</b>
48. Tennessee	7.7
49. South Dakota	7.6
50. Alaska	7.0

Source: Tax Foundation

# ... Especially Property Taxes

State	Median Property Tax on Home (2009)
1. New Jersey	\$6,579
2. Connecticut	\$4,738
3. New Hampshire	\$4,636
4. New York	\$3,755
48. West Virginia	\$464
49. Alabama	\$398
<b>50. Louisiana</b>	<b>\$243</b>

Source: Tax Foundation

# But Sales Taxes are High

State	Sales tax rate (state & local avg. percent)
1. Tennessee	9.45
2. Arizona	9.12
<b>3. Louisiana</b>	<b>8.85</b>
47. Delaware	None
47. Montana	None
47. New Hampshire	None
47. Oregon	None

Source: Tax Foundation

If the tax shift becomes law, Louisiana would almost certainly have the **highest combined sales tax rate** in the country.

# Tax Shift is Regressive

- People with incomes above \$1 million per year (3,188 in 2012) would save **\$65,285** by not paying state income tax
  - But 255,027 households with incomes between \$20,000-\$30,000 would save **\$441** yet pay much higher sales taxes and **likely pay more overall**

Per-capita income taxes in Louisiana are \$525 – among the lowest in the country (**38<sup>th</sup> of 43**)

# Corporate Income Tax

- Nearly all of the corporate income tax is paid by the biggest, wealthiest corporations
- In 2011, **94 percent** of the corporate income tax liability was incurred by the 1.4 percent of companies that earned more than **\$500,000**
  - **65 percent** by companies above \$10 million (.14)
- The vast majority of Louisiana companies (**83 percent**) owed no corporate income tax in 2011

# Impact on Nonprofits

- The governor's plan proposes to **raise \$1.4 billion** by taxing 36 different service categories, including many that affect nonprofits:
  - Accounting, tax preparation, bookkeeping and payroll services
  - IT and related support services, including web hosting
  - Facility support services (janitorial, security, reception)
  - Courier, delivery and messenger services (UPS, FedEx)
  - Event services (hiring event promoters or managers; renting a museum or historical site for a fund-raiser)

# Nonprofit Impacts (cont...)

- Besides new sales taxes on services, specific types of nonprofits will lose exemptions:
  - Sales of donated property by charitable institutions
  - Homeless shelter room rentals
  - Advertising services
  - Sales of original art in cultural districts
  - Construction materials and operations supplies for nonprofit retirement centers
  - Sales of construction materials for Habitat for Humanity, Make it Right Foundation, Hands on New Orleans and Rebuilding New Orleans Together covenant partners

# Do the Math

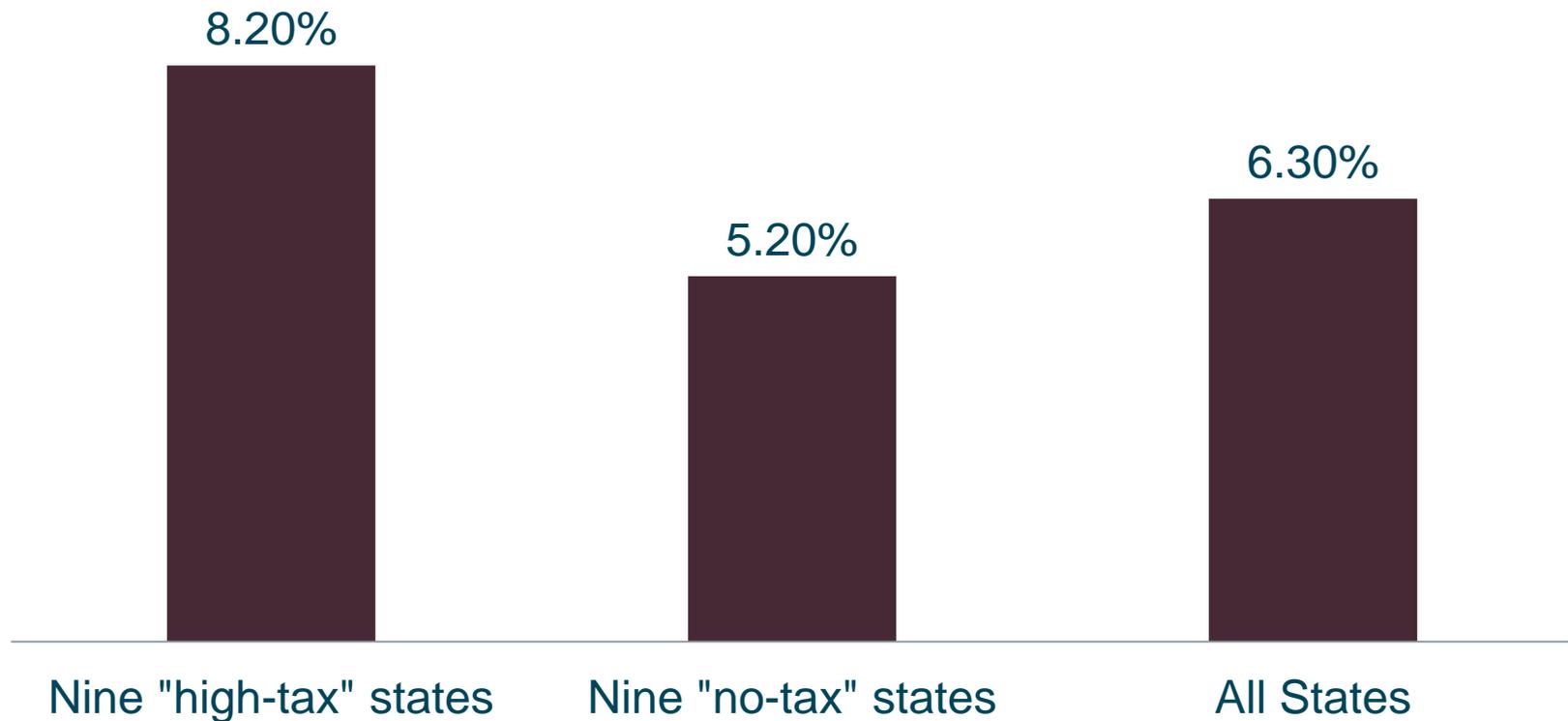
- If tax reform is “revenue neutral” and the biggest benefits flow to those at the very top of the pyramid, the tax burden must be shifted somewhere else.
  - **Guess who pays?**

# The “Economic Growth” myth

- Eliminating the income tax will NOT result in runaway economic growth or new jobs
- Supposed “evidence” of the benefits of no income tax relies on cherry-picked facts and misleading statistics
- States with high income taxes have lower poverty rates, higher median incomes, and fewer uninsured residents than states without a personal income tax

# “Economic Growth” Myth...

## Real per-capita GSP growth 2002-2011



# Moving up the List?

- The governor claims that eliminating income taxes will move Louisiana up the list of states with the best business climate
- But the administration admits that **taxes will go up, not down**, on businesses under the governor's plan
  - You can make a list say anything you want based on what you measure

# Lack of Sustainability

- Taxable sales grow slower than state GDP and personal income
- The governor's plan starts out with a deficit by overstating revenue from new taxes and understating the revenue losses from tax cuts
- By relying mainly on sales taxes, Louisiana would almost guarantee that its budget problems will continue indefinitely

# Other problems with tax shift

- Impact on retirees and people with fixed incomes
- Local governments would struggle to renew existing taxes
- The best tax systems have diverse revenue systems, so if one falls off the others remain strong

# A Better Solution

- The governor's plan includes reforms that would modernize and improve our tax code for families and businesses—and help the state raise the revenue needed to invest in education and health care
- But the money raised through these reforms should not be spent on tax cut for the wealthiest people and companies

# 1. Tax Exemption Reform

“Tax exemptions are tax dollars that are not collected and result in a loss of state tax revenues available for appropriation. In this sense, the fiscal effect of tax exemptions is the same as a direct fund expenditure.”

– Louisiana Dept. of Revenue

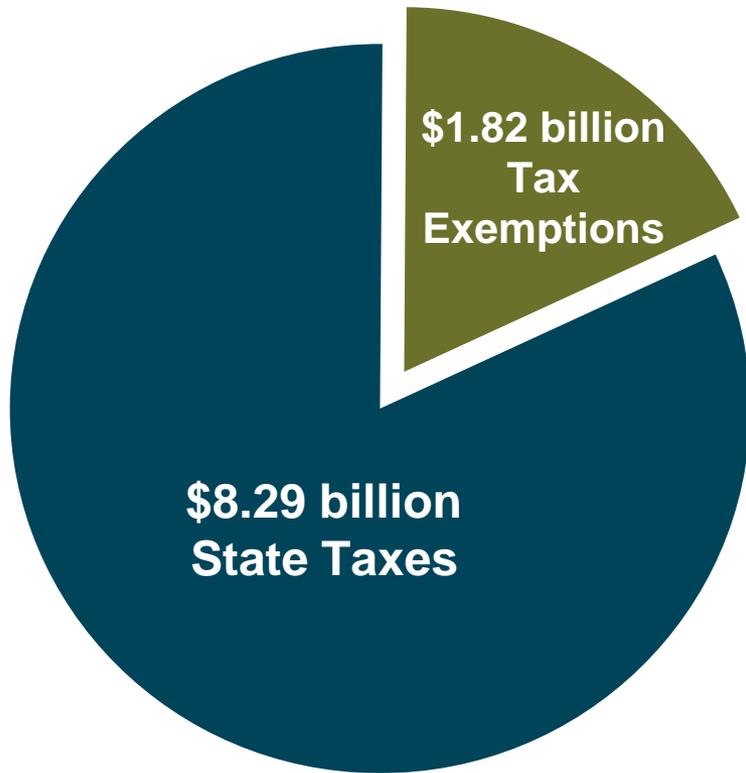
# Tax Expenditures Are Mostly Hidden

- Louisiana's tax code includes 468 different exclusions, credits, exemptions and other loopholes (up from 364 in 2006) worth a combined \$4.8 billion
- Tax expenditures have the same effect as other government spending, but receive far less scrutiny
- Corporate tax exemptions have grown dramatically in recent years

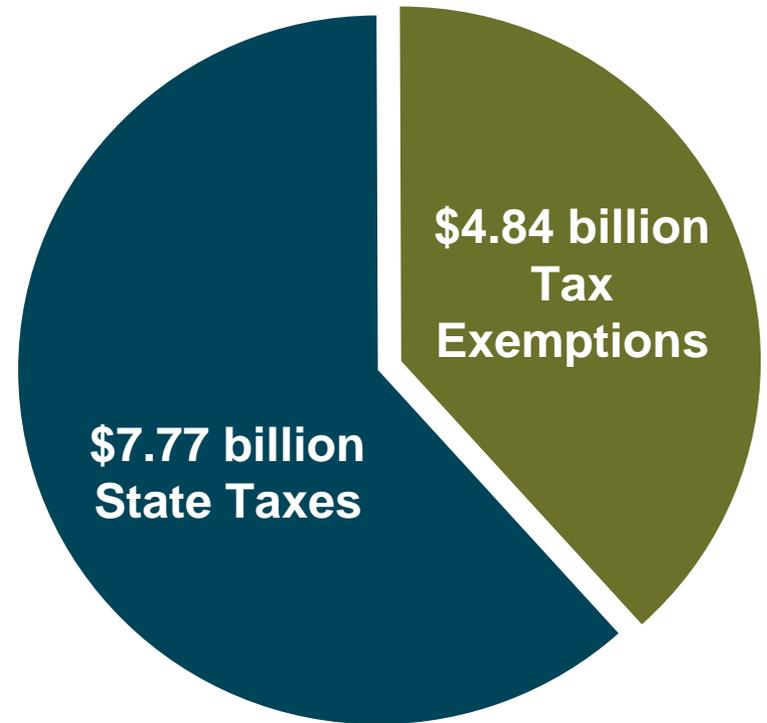
# Exemptions Grew 167% Since 2001

(figures adjusted for inflation)

2001



2011



■ State Tax Collections    ■ Tax Revenue Loss

## 2. Tobacco taxes

- Louisiana has one of the lowest cigarette taxes in the nation
- Raising the cigarette tax by \$1 per pack would raise more than \$200 million and improve public health by reducing smoking (especially among teenagers and first-time smokers)

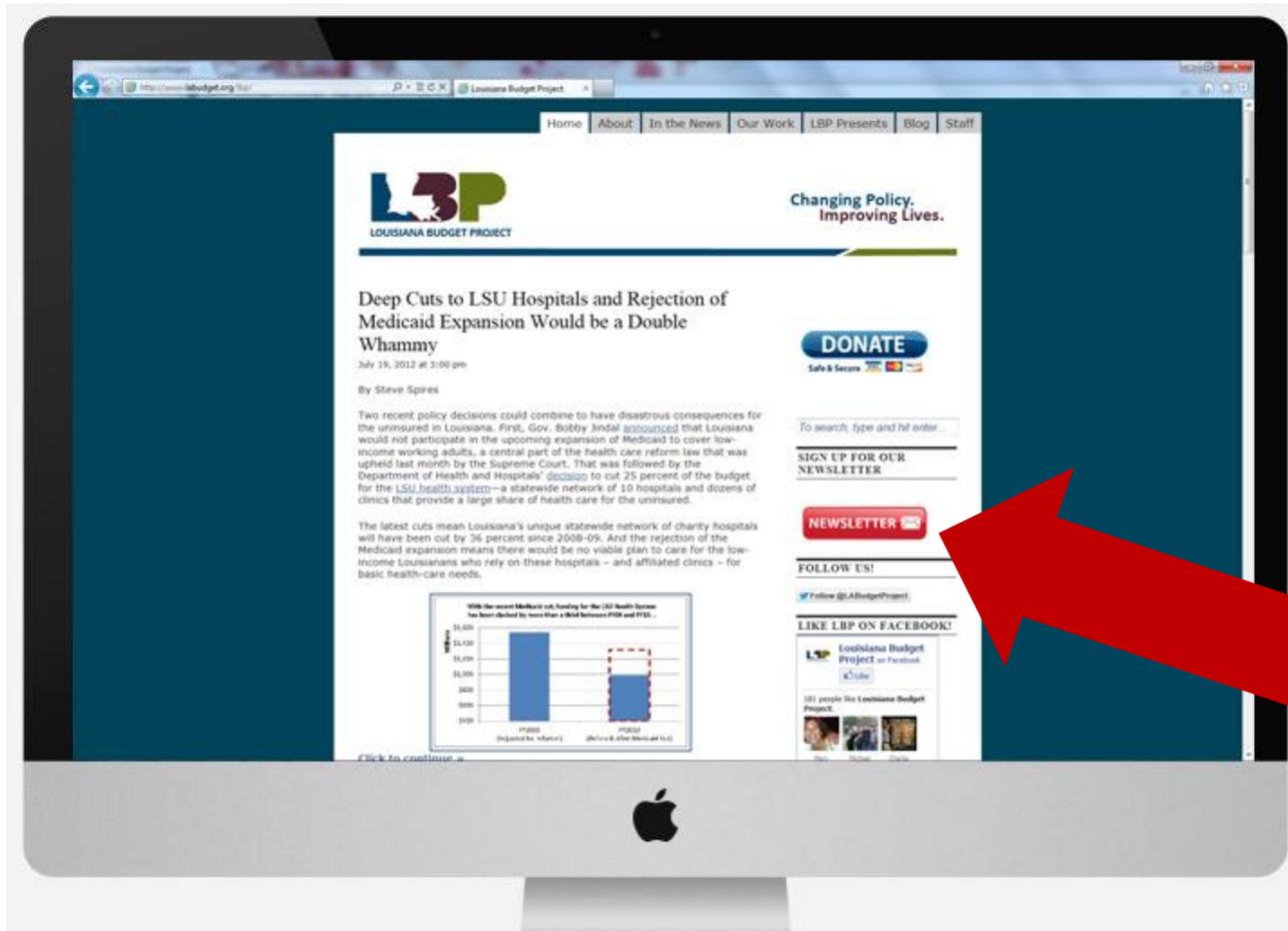
# 3. Sales Tax Modernization

- Positioning Louisiana to be able to enforce collection of online sales taxes (once federal law allows) will help create a level playing field for local businesses
- Today, consumers are spending more on services and less on goods. The sales tax base should be broadened to include some services in recognition of this change.

# 4. Federal Tax Deduction

- Louisiana is one of only three states that allow 100 percent deduction of federal income taxes
- This tax break costs \$643 million per year. Most of its benefits – **83 percent** – flow to the top 20 percent. More than half (**55 percent**) goes to the top 5 percent.
- **Ending or capping this tax break could help lower overall rates, reduce business burdens and make the system more progressive**

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# How Can You Help?

**BETTER CHOICES** *for a*  
**BETTER LOUISIANA**

- BCBL represents a diverse coalition of over 43 organizations from throughout Louisiana
- Calling for a balanced approach of RESPONSIBLE revenue measures and COMMON SENSE savings

Visit [www.betterchoicesla.org](http://www.betterchoicesla.org) for more info!

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