

Proposal to Eliminate Income Taxes Amounts to a Tax Increase on Bottom 80 Percent of Louisianans

Louisiana Governor Bobby Jindal has said that he supports the elimination of the state's personal and corporate income taxes. In fiscal year 2012, Louisiana collected nearly \$3 billion in revenues from its personal and corporate income taxes. In order to pay for the drastic reduction in revenue that would come from eliminating them, lawmakers would likely raise the state's sales tax rate or broaden its base by eliminating various exemptions. Governor Jindal is reportedly developing a plan along these lines that is said to also include some type of income tax relief for low income Louisianans who will be hit hardest by shifting the tax structure to rely more heavily on revenue generated from the sales tax.

The Institute on Taxation and Economic Policy (ITEP) used its Microsimulation Tax Model to show the impact of eliminating the personal and corporate income taxes and increasing the sales tax rate to achieve overall "revenue neutrality"—a goal the Governor previously said would be part of his tax reform agenda.¹

The ITEP analysis does not include any low income tax relief because the mechanism for that relief is unclear at this time. However, it is worth noting that any low income tax relief will likely be insufficient to offset the impact of the large sales tax hike necessary to make this tax swap revenue neutral. (The low income tax relief will also need to be paid for which will likely mean that middle class families will see an even larger tax hike than that described below.) The overall shift in tax liability is so dramatic that the plan is virtually guaranteed to have a regressive impact regardless of whether or not a low-income relief program is added to the package.

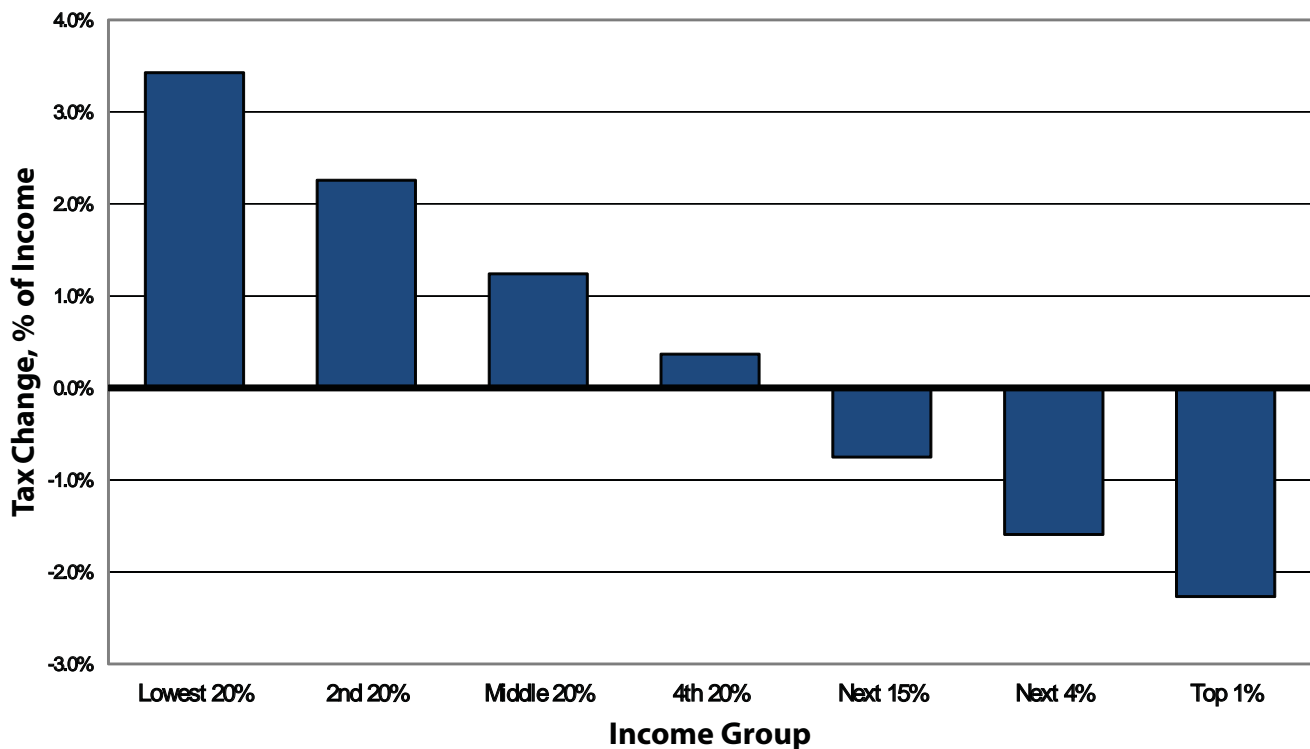
Impact of Eliminating Louisiana's Income Tax and Replacing the Revenue with an Increased Sales Tax							
Louisiana Residents, 2013 Income Levels							
2013 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$18,000	\$18,000 – \$34,000	\$34,000 – \$53,000	\$53,000 – \$93,000	\$93,000 – \$182,000	\$182,000 – \$452,000	\$452,000 – Or More
Average Income in Group	\$12,000	\$25,000	\$43,000	\$69,000	\$124,000	\$255,000	\$1,121,000
Tax as % of Income	-3.4%	-2.3%	-1.2%	-0.4%	+0.8%	+1.6%	+2.3%
Average Tax Change	395	566	534	255	-930	-4,052	-25,423

SOURCE: Institute on Taxation and Economic Policy Microsimulation Tax Model, January 2013

¹ <http://theadvocate.com/home/4597073-125/jindal-eliminate-income-taxes>

- The bottom **80 percent** of Louisianans in the income distribution would see a tax increase from repealing the personal and corporate income taxes and replacing them with a higher sales tax.
- The poorest 20 percent of taxpayers, those with an average income of \$12,000, would see an average tax increase of **\$395**, or **3.4 percent** of their income, if no low income tax relief mechanism is offered.
- The middle 20 percent, those with an average income of \$43,000, would see an average tax increase of **\$534**, or **1.2 percent** of their income.
- The largest beneficiaries of the tax proposal would be the top 1 percent—a group with an average income of well over \$1 million. Louisianans in the top 1 percent would see an average tax cut of **\$25,423**, or **2.3 percent** of their income under the plan described above.

**Impact of Revenue-Neutral Jindal Tax Swap
Repeals Personal & Corporate Income Taxes;
Hikes State Sales Tax Rate on Current Base**



The Governor said, “[E]liminating personal income taxes will put more money back into the pockets of Louisiana families and will change a complex tax code into a more simple system that will make Louisiana more attractive to companies who want to invest here and create jobs.”² But this is absolutely not the case. Far from putting more money back into the pockets of Louisiana families this proposal actually *raises* taxes on the poor and middle class. This proposal would also threaten Louisiana’s ability to provide critical services in the future that are essential to the health of the state’s economy. 🗳️

² http://www.nola.com/politics/index.ssf/2013/01/gov_bobby_jindal_calls_for_eli.html