

### What is the Louisiana Budget Project?

The Louisiana Budget Project is part of a national network of the State Fiscal Analysis Initiative (SFAI) sponsored by the Center on Budget and Policy Priorities. There are similar independent research and advocacy organizations working in over 30 states. In designing the project, LANO adopted best practices from nationally recognized state and fiscal analysis programs in Maryland, Michigan and Minnesota, all of which were part of SFAI project of the Center on Budget and Policy Priorities. This research was funded by the Annie E. Casey Foundation, the W.K. Kellogg Foundation, the Open Society Institute and the Public Welfare Foundation. We thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the author alone, and do not necessarily reflect the opinions of these foundations.

### Why is LANO Involved?

LANO was created to strengthen the ability of Louisiana's nonprofits to improve the quality of life in our state. To better serve their communities, nonprofits must become influential participants in the debate about the state's fiscal policy, embodied in the state budget. Our state and nonprofit agencies will only meet our collective policy goals if we are clear about where we are allocating our resources, whether we are doing so transparently and ethically, and whether we are getting the best social return on our investment.

## Executive Summary

Louisiana's direct state spending routinely receives harsh scrutiny from legislators, the public and the media. But each year, Louisiana spends billions of dollars in areas that receive virtually no public examination – tax exemptions. More attention to the impact of tax policy is necessary to get a complete picture of the financial status of the state.

Tax policy – including the creation of tax exemptions, credits, and deductions – has a direct fiscal impact on the bottom line of resources for the state. The purpose of this report is two-fold:

- to identify the approximate \$2.1 billion annual fiscal impact of tax exemptions, deductions, and credits on the State of Louisiana's budget; and
- to encourage a thoughtful review and assessment of existing and recommended tax exemptions during the state budget review process, at both the executive and legislative level.

The Louisiana Budget Project (LBP) recommends to the Governor and the Legislature that a process be established to make certain that "tax expenditures" receive the same scrutiny given to regular appropriations on an annual basis.

### What is a Tax Exemption?

According to the Louisiana Tax Exemption Budget, 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."

Tax exemptions are created and passed by the Legislature and result in a loss of state or local tax revenues that would otherwise be available for spending on services for Louisiana residents. The term "exemption" is used for all exemptions, exclusions, deductions, credits, preferential tax treatments, and tax deferrals – anything that creates a provision allowing an individual or corporation to not pay a tax.

### Tax Exemptions and Fiscal Policy

Tax exemptions are designed to encourage certain activities – such as economic development opportunities for corporations that relocate to Louisiana, investment in the Louisiana Film Industry, the hiring and training of the unemployed, or development of low-income housing. Also, exemptions are typically targeted to specific individuals or endeavors such as corporations, retirees, and nonprofit organizations.

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