

Mailing:

P.O. Box 3808
Baton Rouge, LA 70821

Physical:

8281 Goodwood Blvd.
Baton Rouge, LA 70806

Phone: 225-929-5266

Fax: 225-925-2711

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Contact: Edward Ashworth, 225.929.5266, x224

Louisiana Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Louisiana pay a far higher share of their income in state and local taxes than do the richest families in Louisiana, according to a new national study by the Washington DC-based Institute on Taxation & Economic Policy. (Louisiana data is reported below.)

“Louisiana lawmakers will be forced to make difficult tax and spending decisions in the upcoming year,” said Matthew Gardner, ITEP’s executive director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “They should be mindful that the Louisiana tax system already falls most heavily on the very poorest families in the state.”

Louisiana’s Tax Code: The Poor Pay More

When all Louisiana taxes are totaled up, the study found that:

- Louisiana families earning less than \$15,000—the poorest fifth of Louisiana non-elderly taxpayers—pay 10.4% of their income in Louisiana state and local taxes.
- Middle-income Louisiana taxpayers—those earning between \$29,000 and \$46,000—pay 9.9% of their income in Louisiana state and local taxes.
- But the richest 1 percent of Louisiana taxpayers—with average incomes of \$1,027,100—pay only 5.7% of their income in Louisiana state and local taxes.

“No one would ever design an income tax with lower tax rates for the best-off taxpayers,” stated Edward Ashworth, Director of the Louisiana Budget Project. “But that is exactly what Louisiana’s tax system overall does: it allows the very wealthiest individuals to contribute less of their income, on average, than middle- and lower-income families must pay. In

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other words, Louisiana has an unfair, unbalanced tax system.”

Louisiana Sales, Excise, Property Taxes Hit Low-Income Families Hardest

The main reason for the unfairness of Louisiana taxes is the state’s reliance on sales and excise taxes, which fall disproportionately on the worst-off families, and the state’s reliance on property taxes. Because lower income households tend to spend a higher percentage of their income on purchases, they end up paying a higher share of their income in taxes too. The exception is the state income tax, where rates rise with income. It’s the only tax based on the ability to pay, but Louisiana doesn’t rely on its income tax enough to make up for the impact of the other taxes on low- and middle-income households.

Louisiana’s reliance on sales and excise taxes is 65 percent higher than the national average, according to the ITEP study. Its reliance on property taxes is 47 percent below the national average, and its reliance on income taxes is 14 percent below the national average.

“Louisiana lawmakers have a straightforward strategy available to address its woeful tax fairness record,” Ashworth said. “Relying more on income taxes, and less on sales and excise taxes, could help make the Louisiana tax system substantially less unfair. Instead, Louisiana has been moving in the opposite direction by repealing portions of the Stelly plan, resulting in a reduction in income taxes,” Ashworth noted.

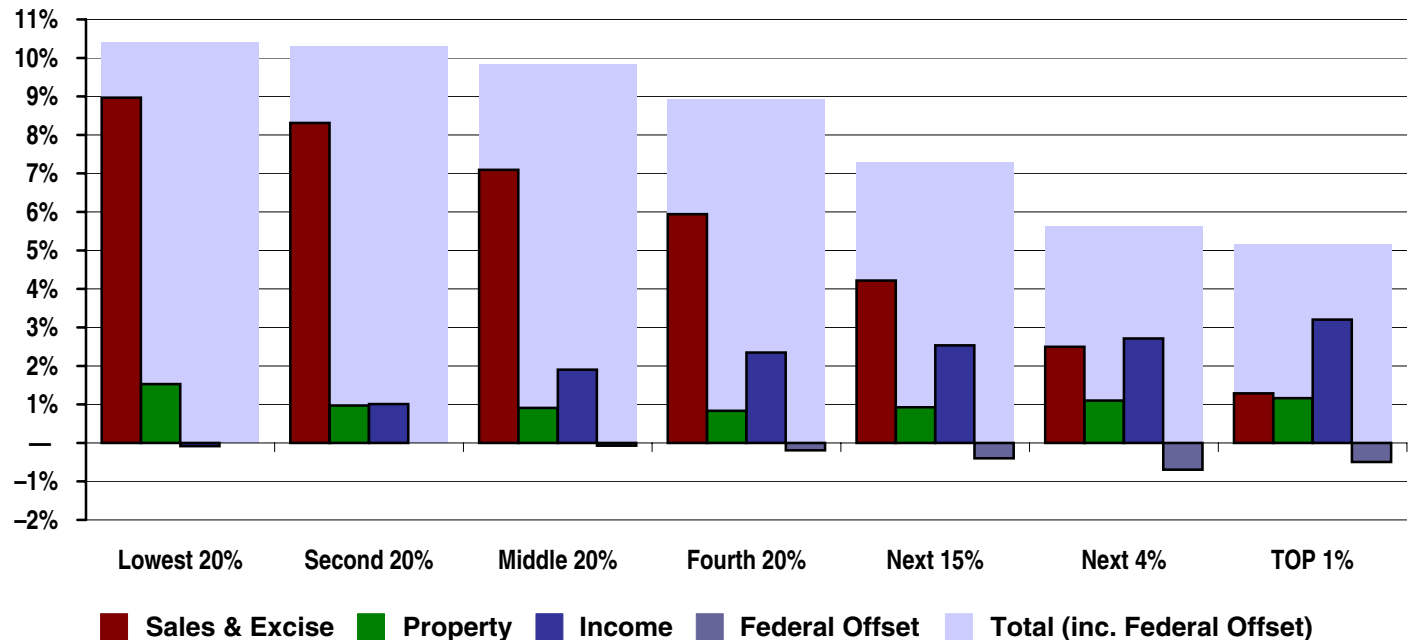
Louisiana Budget Project is a project of the Louisiana Association of Nonprofit Organizations. The Louisiana Budget Project monitors and reports on state government spending and how it affects Louisiana’s low- to moderate-income families.

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Louisiana

State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$29,000	\$29,000 – \$46,000	\$46,000 – \$83,000	\$83,000 – \$162,000	\$162,000 – \$418,000	\$418,000 or more
Average Income in Group	\$9,800	\$21,300	\$36,600	\$60,900	\$110,600	\$228,700	\$1,027,100
Sales & Excise Taxes	9.0%	8.3%	7.1%	5.9%	4.2%	2.5%	1.3%
General Sales—Individuals	6.1%	5.7%	5.1%	4.4%	3.1%	1.9%	1.0%
Other Sales & Excise—Ind.	0.8%	0.7%	0.5%	0.3%	0.2%	0.1%	0.0%
Sales & Excise on Business	2.0%	1.9%	1.5%	1.2%	0.8%	0.5%	0.3%
Property Taxes	1.5%	1.0%	0.9%	0.8%	0.9%	1.1%	1.2%
Property Taxes on Families	1.5%	0.9%	0.9%	0.8%	0.8%	0.8%	0.4%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%	0.7%
Income Taxes	-0.1%	1.0%	1.9%	2.3%	2.5%	2.7%	3.2%
Personal Income Tax	-0.1%	1.0%	1.9%	2.3%	2.5%	2.6%	2.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%
TOTAL TAXES	10.4%	10.3%	9.9%	9.1%	7.7%	6.3%	5.7%
Federal Deduction Offset	—	—	-0.1%	-0.2%	-0.4%	-0.7%	-0.5%
TOTAL AFTER OFFSET	10.4%	10.3%	9.8%	8.9%	7.3%	5.6%	5.2%

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Louisiana

State & Local Taxes

Features, Developments, and Comparisons

Progressive Features

- ✓ Provides refundable income tax credits to reduce impact of sales, excise, and property taxes
- ✓ Sales tax base excludes groceries and utilities

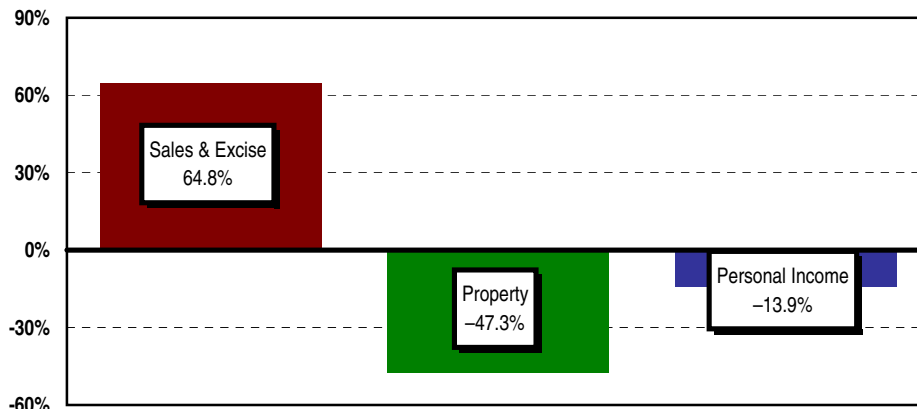
Regressive Features

- ✗ Comparatively high reliance on sales and excise taxes
- ✗ Offers an income tax deduction for federal income taxes paid

Recent Developments

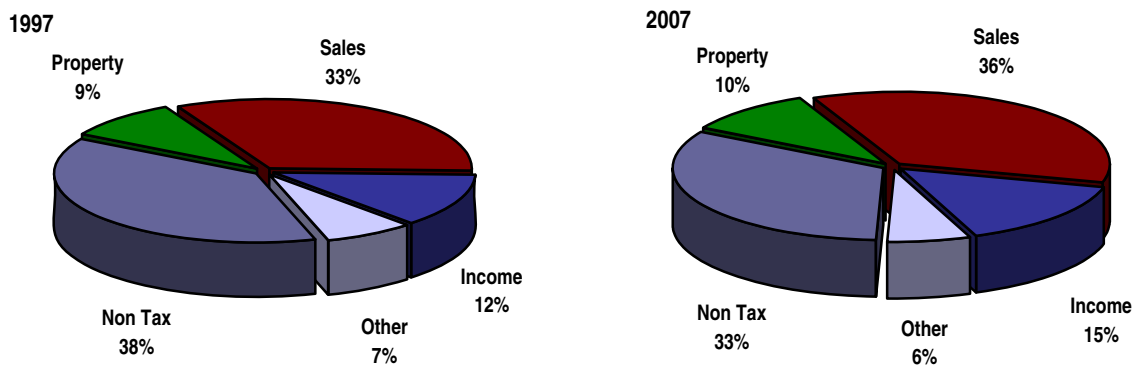
- ▲ Reinstated income tax deduction for federal itemized deductions in excess of federal standard deduction
- ▲ Changed income tax brackets to reduce the amount of income subject to state's top income tax rate
- ▲ Instituted a refundable state earned income tax credit (EITC)

Select State and Local Taxes Relative to the National Average



Source: Government Finances, US Department of Census

Change in the Composition of Revenue



Source: Government Finances, US Department of Census