



Louisiana Budget Project

PROVIDING INDEPENDENT,  
NONPARTISAN research and analysis  
of Louisiana fiscal issues and their  
impact on low and moderate  
income residents.

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## LOOPHOLE COSTS LOUISIANA OVER \$100 MILLION IN STATE REVENUE

(Baton Rouge – March 17, 2011) A new report by the Louisiana Budget Project addresses the high cost of itemized deductions and their effect on slumping state and local revenues. The report is the first in a series of 6 revenue-themed whitepapers to offer balanced, transparent solutions to Louisiana’s fiscal crisis.

The report exposes a surprising loophole in Louisiana’s income tax forms. Filers who itemize not only can deduct a portion of their federal income taxes from their income subject to state taxes; they may also deduct from their listed income the *entire amount they pay in state taxes*. Only six other states offer this fiscally irresponsible allowance, with one, Vermont, allowing only a partial deduction.

According to the Louisiana Budget Project, high income filers are most likely to itemize their deductions and are thus best positioned to benefit from this almost unprecedented loophole.

“Louisiana is in trouble,” said Louisiana Budget Project Director Eddie Ashworth. “We’re closing regional Medicaid offices, eliminating university programs and firing faculty. We’ve cut our state’s future by the hamstrings.” Ashworth argues a cuts-only strategy will result in crippling state services and institutions vital to Louisiana’s future.

The report notes most states have adopted an “add-back” provision that can close this filing loophole and provide the revenue Louisiana needs to survive.

According to Ashworth, only “one extra line” on the state tax filing form would be necessary to prevent this loss of needed state revenue. This add-back rule, if adopted by Louisiana, would only affect taxpayers who itemize their deductions, mostly those with above-average incomes, because lower income taxpayers lack enough deductions to take advantage of itemizing.

Supporting analysis by the Institute on Taxation and Economic Policy shows that such a measure would result in higher tax liability for only 18% of state taxpayers.

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Louisiana needs a more balanced approach when addressing state needs and state revenues. Instead of cutting vital services, Louisiana can gain much-needed revenue that is critical to the state's future by closing this loophole.

The Baton Rouge-based Louisiana Budget Project provides independent research and analysis of Louisiana fiscal issues and their impact on low and moderate income residents. For a copy of the full report and more information on LBP, visit [www.labudget.org](http://www.labudget.org) and read *Itemized Deduction for State and Local Income Taxes Costs Money We Can't Afford to Lose*.

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