

Expanding Louisiana's Sales Tax—A Little from Everyone Means a Lot for Louisiana

Louisiana is in the midst of a crisis of historic proportions. Public needs are growing and the resources it takes to meet them have shrunk. To solve this crisis—to get Louisiana's budget out of the ditch—without further damaging institutions and reducing services critical to the state's future growth, will take more than a cuts-only strategy. Instead we need a more balanced approach, one that includes additional sources of revenues. This Research Note is the fifth in a series of revenue proposals aimed at helping Louisiana solve its problems in a responsible way that promotes job-creation and future prosperity.

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Louisiana's sales tax has not kept up with the times. Consumer purchasing patterns have changed dramatically since Louisiana's sales tax was enacted in 1936. Today, people spend more of their income on a wide range of services, from cable television to lawn care to and music downloads, and less on hard goods such as furniture and books.¹ We spend less on writing paper and envelopes and more on Internet access to send email.

Despite the changed times, Louisiana has not modernized its sales tax to include many of the services more prevalent in today's economy. Partly for this reason, the state is unable to produce the revenue needed to keep up with the normal growth in the cost of providing education, healthcare, and other necessities.

Services are some of the fastest-growing areas of consumption. Louisiana can generate significant additional revenue to protect public investments by expanding the services that are subject to the state's 4 percent sales tax to include services such as: cable television, haircuts, towing, pet services, veterinary services, water softening, and landscaping and gardening services.

The state's sales tax applies to retail sales of *tangible* personal property, goods used or stored for use in Louisiana, leases and rentals of tangible personal property, and a limited range of services.² The tax applies to commonly purchased goods and services such as:

- *Goods*: automobiles, computers, books, clothing, appliances, sporting goods, compact discs, jewelry, and furniture.
- *Services*: car repairs, storages, parking, printing, laundry, dry cleaning, telecommunications, and sale of admissions to amusement parks, athletic events, and recreational events.

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Louisiana's sales tax applies to less than a third of 168 services that one or more states tax, according to the Federation of Tax Administrators. Based on an analysis by the Institute on Taxation and Economic Policy (ITEP), Louisiana would generate \$141 million in additional revenue by expanding the sales tax base to include personal services.

The sales taxes of some other states are more closely tied to today’s economy than Louisiana’s. Hawaii, South Dakota, and New Mexico have comprehensive sales taxes that include most services. States including Maine and New Jersey, while not taxing services comprehensively, have expanded their sales taxes to include more personal care services.³ Maine expanded its sales tax in 2009 to include services such as entertainment admissions, auto and equipment repairs, and laundry and car washes, generating a 4.4 percent increase in sales tax collections. New Jersey expanded its sales tax base in 2006 to include a dozen new services, generating more than \$400 million in additional revenue each year, a 5 percent increase in sales tax receipts.

State sales taxes are a major source of funding for schools, universities, health care, and other functions of state and local government. Expanding the sales tax to include more personal care services would help Louisiana maintain support for these vital functions during this time of fiscal crisis by providing additional revenues for critical infrastructure investments such as our roads and bridges, a healthier and more educated workforce, and research institutions such as the Pennington Biomedical Research Center.

Expanding the sales tax to personal services would also make the sales tax fairer. Sales taxes are intended to be a general tax on consumption. Thus, sales taxes are regressive, which means that the burden of paying them falls more heavily on lower-income taxpayers than higher-income taxpayers. This is because high-income individuals do not consume as high a percentage of their income as lower-income people, whose income is absorbed in meeting basic needs. Expanding the sales tax to include services purchased by higher-income households could make sales taxes less regressive, which would represent an important step towards tax fairness.

Increasing sales tax collections by expanding the list of services subject to the sales tax would be an “equal opportunity” tax, with Louisianans at all income levels paying a portion of the increase (Table 1). Because everybody would pay some, nobody would pay a lot. According to ITEP’s analysis, a family with an annual income between \$16,000 and \$31,000 would pay \$43 more per year on average. A family in the top 1 percent income level, making on average \$1,150,000 annually, would pay an additional \$210 in state sales taxes.

Table 1
Impact of Expanding Louisiana State Sales Tax Base at 4 percent Louisiana Residents,
2010 Income Levels

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Annual Income Range	Less Than \$16,000	\$16,000- \$31,000	\$31,000- \$49,000	\$49,000- \$86,000	\$86,000- \$170,000	\$170,000- \$433,000	\$433,000 Or More
Average Income in Group	\$11,000	\$23,000	\$40,000	\$64,000	\$116,000	\$243,000	\$1,150,000
Tax as Percent of Income	+ 0.2%	+ 0.2%	+ 0.2%	+ 0.1%	+ 0.1%	+ 0.0%	+ 0.0%
Average Tax Change	+ \$20	+ \$43	+ \$64	+ \$79	+ \$92	+ \$107	+ \$210
Percent of Total Tax Change	7%	14%	21%	26%	22%	7%	3%

It’s time to modernize the state sales tax. Doing so would make the state tax system more stable in the long run and raise revenue to protect job-producing public investments.

Previous Research Notes in series

Itemized Deduction for State and Local Income Taxes Costs Money We Can’t Afford to Lose

http://www.labudget.org/lbp/wp-content/uploads/2011/03/Itemized-Deduction-for-State-and-Local-Income-Taxes.FINAL_.pdf

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<http://www.labudget.org/lbp/wp-content/uploads/2011/03/Two-New-Tax-Brackets-for-High-Income-Households.Paper2-.pdf>

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About the Louisiana Budget Project

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana through a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative's 40 state budget projects that are coordinated by the national Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is Credible, Timely, and Accessible.

End Notes

¹ "The ITEP Guide to Fair State and Local Taxes." *Institute on Taxation and Economic Policy*. March 2011.

http://itepnet.org/state_reports/guide2011.php

² Louisiana Department of Revenue. *2010 Annual Tax Collection Report*: 56.

<http://rev.louisiana.gov/forms/publications/TCReport%2809.10%29Final.pdf>

³ Mazerov, Michael. "Expanding Sales Taxation of Services: Options and Issues." *Center on Budget and Policy Priorities*. August 2009.

<http://www.cbpp.org/files/8-10-09sfp.pdf>