

Tax Exemptions: More Safeguards Needed

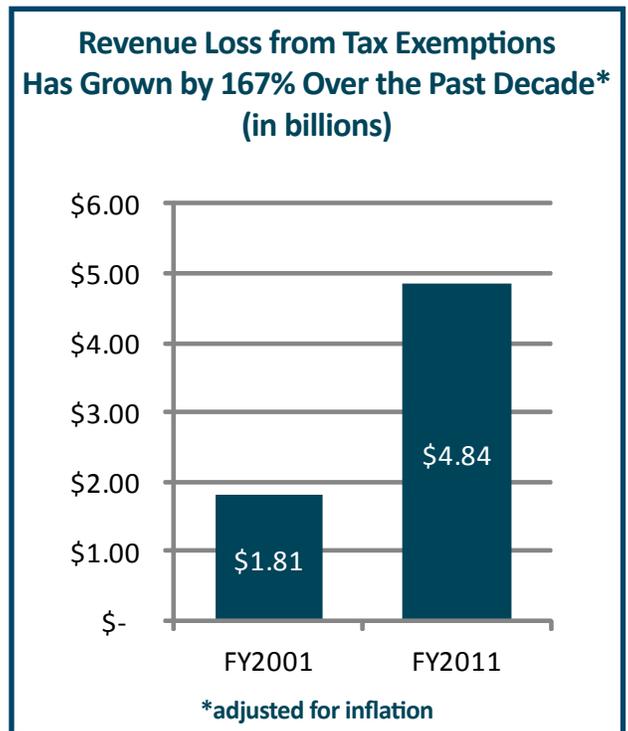
By Tim Mathis

Although Louisiana offers tax exemptions to achieve a variety of policy objectives, many are outdated, poorly targeted, and cost tens or even hundreds of millions of dollars per year. Often, companies benefit even though they have zero tax liability. It’s time for policymakers to take a hard look at current exemptions, get rid of those that aren’t working and put more safeguards in place when new ones are created.

As the Louisiana Dept. of Revenue notes, 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.” Yet, policymakers do not hold tax exemptions to the same level of accountability as other spending.

Tax exemptions are designed to encourage certain activities—such as economic development, the hiring and training of the unemployed, and development of low-income housing. But Louisiana’s mixed bag of tax credits, exclusions, deductions, and refunds—now up to 468 separate exemptions—come at a steep price.

- Exemptions cost approximately \$4.84 billion in fiscal year 2011, and are projected to keep growing over the coming years.
- The growth of exemptions has skyrocketed over the past decade, contributing to an overall decline in state revenue. Since 2001, the cost of exemptions to the state budget has grown by 167 percent, after accounting for inflation.
- Once passed, tax exemptions are rarely evaluated for their effectiveness and renew automatically every year.
- Most exemptions are permanent, open-ended subsidies to large corporations.
- Exemptions require a majority vote to pass but a two-thirds vote to reduce or repeal.

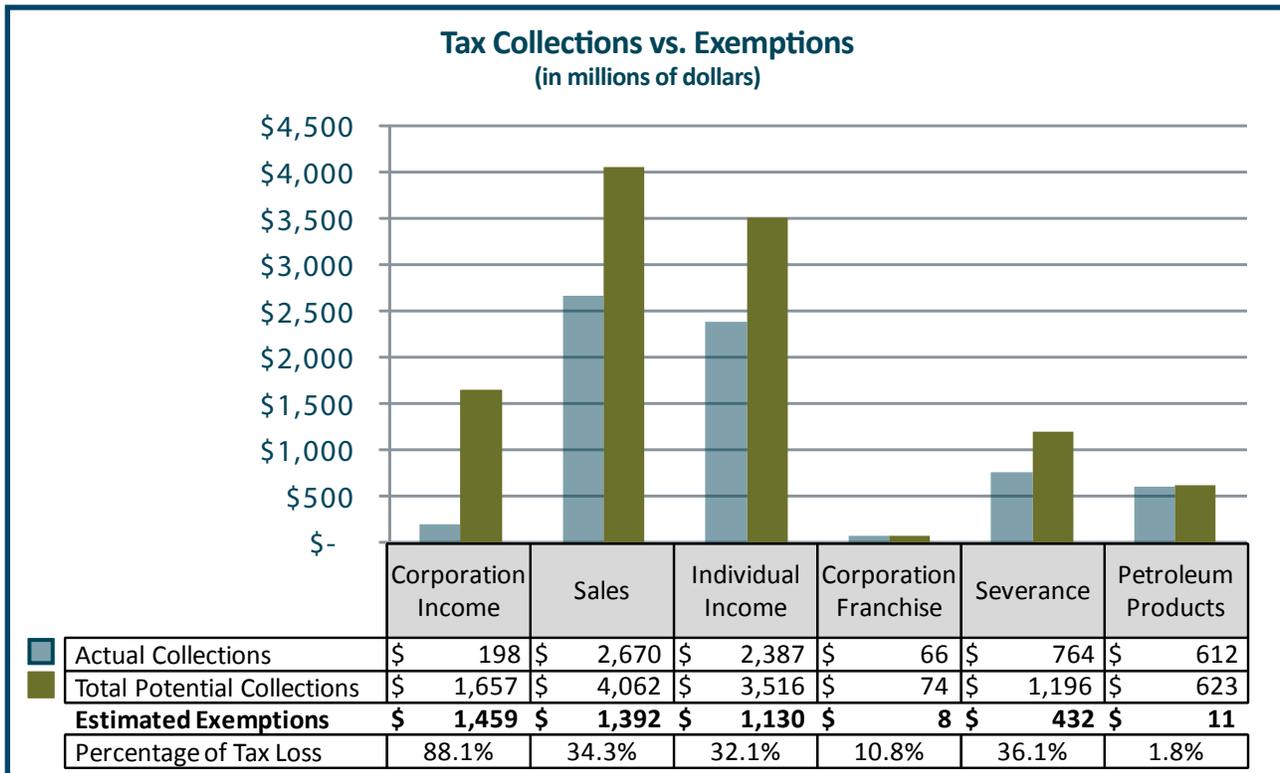


Of course, not all exemptions are bad. Most would agree that sales tax exemptions on groceries, prescription drugs and residential utilities are worthwhile. The state Earned Income Tax Credit is a cost-effective anti-poverty initiative that puts more money in the hands of Louisiana’s working poor, while school readiness tax credits encourage working parents to use high-quality child-care providers. In addition, a reasonable degree of corporate tax uniformity with other states can help keep Louisiana competitive.

But exemptions need more scrutiny and should be reformed. It’s unclear if many tax incentives, designed to boost jobs and the economy, actually provide a good “return on investment” because there are no strong accountability measures.

But we do know that some exemptions are not cost effective. Several states have appointed commissions to review their exemptions. Some “best practices” include:

- Establishing a regular review process and framework for evaluating exemptions;
- Improving disclosure requirements;
- Setting expiration dates (“sunssets”) for all new tax exemptions, so they can be reviewed for effectiveness and then either renewed or ended;
- Capping, reducing, or eliminating tax credits that are wasteful, underutilized, or too costly.



Backdoor spending through tax exemptions results in budget cuts that weaken K-12 education, colleges and universities, and health care. Louisiana needs to give tax exemptions the same scrutiny, deliberation, and accountability as spending through the traditional appropriations process receives.

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 42 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. For more information, visit www.labudget.org.

About Better Choices for a Better Louisiana

Better Choices for a Better Louisiana (BCBL) represents a growing number of environmental, business, faith-based, labor, health, education, community, and consumer groups from throughout Louisiana that want to invest in Louisiana’s future. BCBL works toward a balanced, transparent approach to solving Louisiana’s fiscal crisis rather than relying solely on short-sighted cuts to services needed by working families. For more information on how to join the coalition, visit www.betterchoicesla.org.