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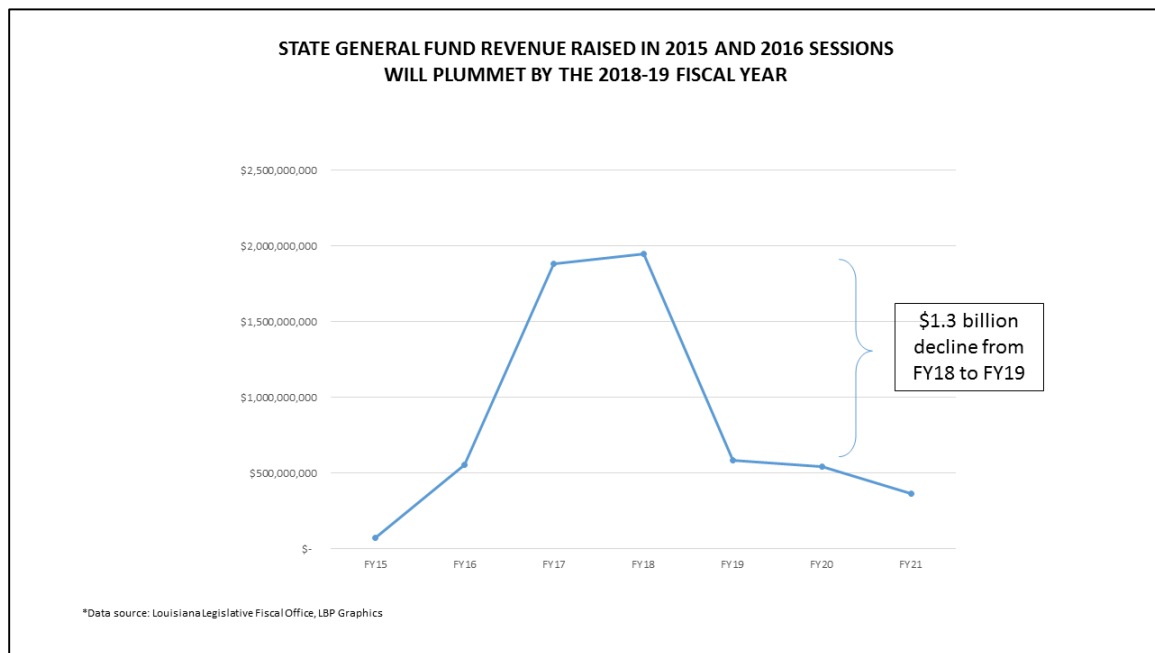
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The 2016 Legislature: Unfinished business

By Jan Moller

The three sessions that comprised the 2016 Louisiana Legislature should be remembered as much for what was accomplished as what wasn't. While elected officials raised enough revenue to avoid the most serious cuts, they left major holes in the budget that will impact students from kindergarten through college and sets back the state's efforts to reform its criminal justice system.

Perhaps more importantly, legislators failed to make the long-term structural reforms needed to put Louisiana's budget back on solid footing. That means the work of building a more fair and sustainable revenue and budget structure must continue next year, as many of the revenue measures that were passed in 2015 and 2016 come with expiration dates. The Legislature didn't fix Louisiana's fiscal problems so much as it bought some time for real reforms to be made.



Gov. John Bel Edwards and the Legislature deserves credit for ending the pernicious practice of balancing the budget using "one-time" dollars that have no replacement source in future years. The 2015-16 budget was built with \$826 million in one-time dollars, which contributed greatly to the initial \$2 billion shortfall in the fiscal year



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that starts July 1. Next year's budget is free of such "funny money," and represents a more honest balance between revenues and expenses.

Unfortunately, the era of one-time money has given way to a new era of temporary taxes. While some of the tax changes approved since 2015 are permanent – including increased levies on tobacco and alcohol, and changes to the inventory tax credit and corporate franchise tax – the biggest changes are temporary. More than \$1.3 billion in revenue enhancements are coming off the books in 2018, including more than \$1.1 billion in increased sales taxes that gave Louisiana the highest combined (state and local) sales tax rate in the countryⁱ.

Using one-time dollars to pay for ongoing expenses is bad budget policy, but so is the use of temporary taxes to fill budget holes. Both create a climate of uncertainty that sends a bad message to outside investors and, especially, to families who depend on the state for critical services.

Particularly disappointing was the Legislature's failure to restructure the state income tax. Louisianans pay some of the lowest per-capita income taxesⁱⁱ in the nation, thanks in large part to generous deductions that mostly benefit the wealthiest households and are not found in most other states.

The deduction for federal income taxes costs Louisiana \$968 million in uncollected income-tax revenue in 2015, according to the Institute on Taxation and Economic Policy.ⁱⁱⁱ More than one-third of that (36 percent) goes to the richest 1 percent of tax filers, while more than half (57 percent) goes to the top 5 percent. Only 1 percent of the benefits go to the bottom 40 percent of households – those earning less than \$37,000 per year.

Louisiana also allows taxpayers to deduct the state income taxes they've paid on their following year's state tax return – a tax break that costs the state \$88 million^{iv} per year and mainly benefits high-earning households^v. This deduction serves no economic purpose, and several states have eliminated this deduction in recent years.

Louisiana is one of only three states that allow full deductibility of federal income taxes, and one of four states that permit the state deduction. Reforming Louisiana's broken tax structure should start by eliminating these outdated tax breaks.



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Legislators also failed to approve a modest increase in the minimum wage, provide equal pay for women and enhance the Earned Income Tax Credit – all of which would have helped struggling families get ahead.

It's important to note that legislators faced a monumental task when they convened for the first special session in February. The 2015-16 budget faced a \$963 million mid-year shortfall, and there was a \$2 billion gap between revenues and expenses for 2016-17. Without additional tax revenue, Louisiana would have faced unfathomable cuts^{vi} that would have forced colleges and hospitals to close, and thousands of vulnerable families to lose critical safety-net services.

The sheer size of these shortfalls– brought about by years of irresponsible budgeting and a sharp drop in state revenue due to slumping energy prices – made it virtually impossible for policymakers to avoid raising the sales tax. But Louisiana should take no pride in the fact that it now has the highest sales tax rate in the country, and lowering this tax (while broadening the base) must be a priority for 2017.

Louisiana legislators spent a record 19 consecutive weeks meeting at the Capitol, and leave with some real accomplishments. But it wasn't enough. The real work is still ahead.

ⁱ <http://theadvocate.com/news/15350511-127/louisiana-sales-tax-system-now-ranks-worse-than-last-place>

ⁱⁱ <http://taxfoundation.org/blog/state-and-local-individual-income-tax-collections-capita>

ⁱⁱⁱ <http://www.labudget.org/lbp/2016/02/the-federal-deduction-needs-reform/>

^{iv} <http://www.legis.la.gov/legis/ViewDocument.aspx?d=1012466>

^v <http://www.labudget.org/lbp/2016/06/eliminate-the-state-tax-deduction/>

^{vi} http://www.doa.la.gov/opb/pub/FY17/FY17_Executive_Budget.pdf