Who Pays?

Racial Injustice in Louisiana's Tax System

March 2021

Louisiana Budget Project

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Overview

Historic and current injustices - both in public policy and in society more broadly - have resulted in vast disparities in income across race and ethnicity in Louisiana.

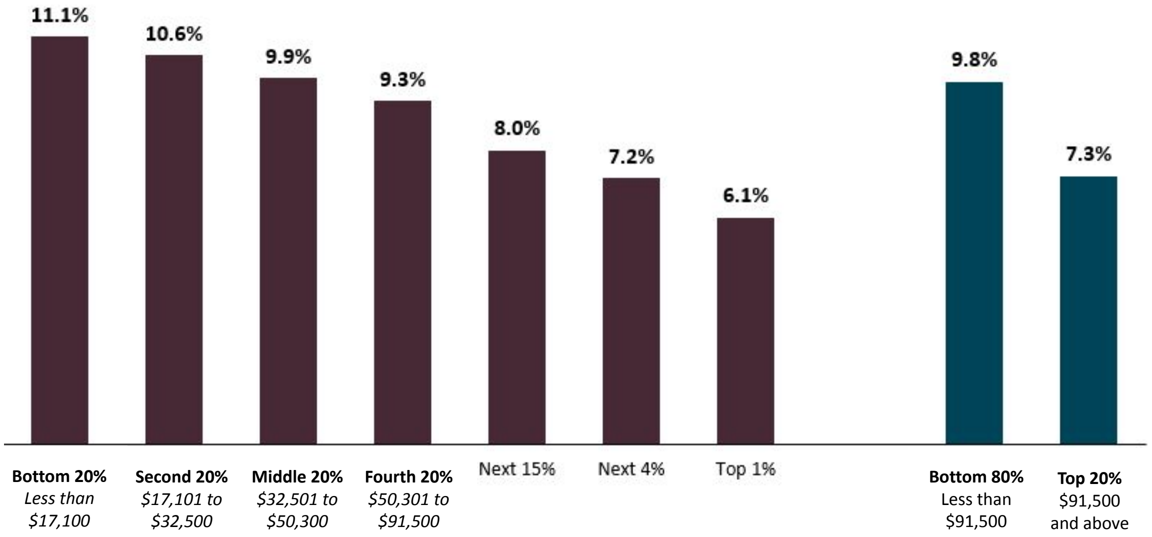
Unfortunately, our tax system plays an active role in worsening these disparities by asking those with the least to contribute the largest share of their income to taxes.

In our regressive tax system, the bottom 80% of taxpayers, or those earning less than $91,500 per year, pay 9.8% of their income in state and local taxes. The richest 20% pay a far lower rate of 7.3%.

These higher tax rates on lower-income households impact communities of color more than white communities. Through our upside-down tax structure, Louisiana makes it more difficult for people and communities of color to build income and wealth over time.

Louisiana's upside down tax system: Highest rates for those with the least

Louisiana state and local taxes as a percentage of household income by income group (quintile)



Source: Institute on Taxation and Economic Policy, update to Who Pays? 6th Edition provided January 2021

Who Pays? Racial injustice in Louisiana's tax system

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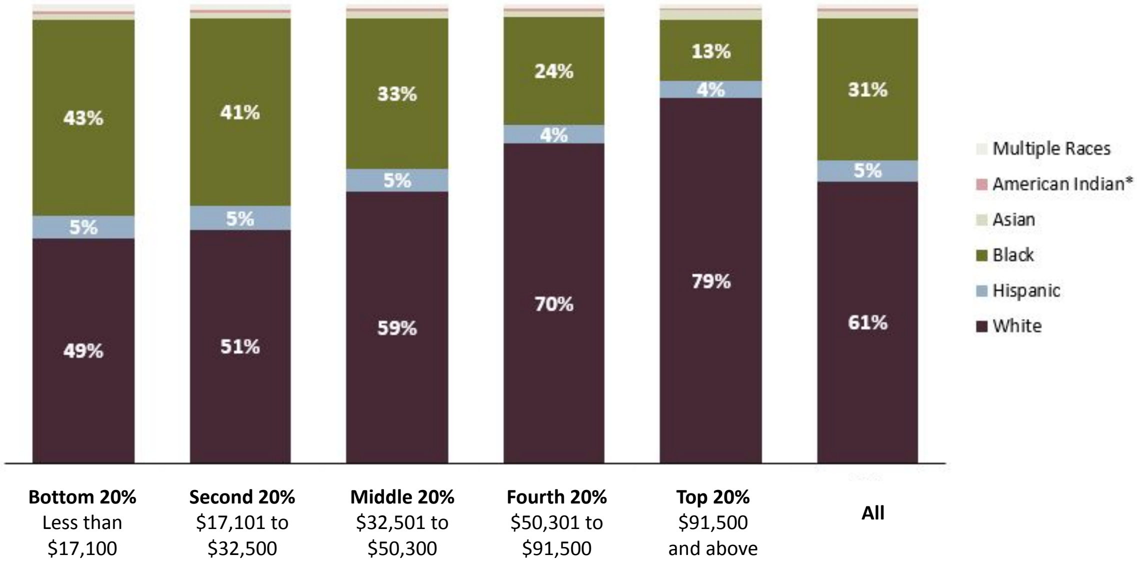
Black Louisianans are overrepresented among Louisiana's low-income households

Racial composition of Louisiana income groups (quintiles)



Source: Institute on Taxation and Economic Policy. Data are presented at the "tax unit" level, a concept similar to the household but not identical. Elderly tax units are excluded from these figures.
* Includes only those tax units living away from federally recognized reservations.

Race and income in Louisiana

Years of policy advantage and privilege have led to a significant overconcentration of white families among the state's top earners.

While white households make up 61% of Louisiana's overall population, they comprise 79% of the state's top earners (defined as the top 20% of earners).

In contrast, about half of low-income families (49%) in Louisiana are white (defined as the bottom 20% of earners, or those earning less than $17,100).

Historical and current racism have caused a disproportionate share of Black, American Indian, and Hispanic households to fall into this lower-income group relative to their share of the population.

The bottom 80% of taxpayers is a more diverse group than the top 20%. Forty-three percent of families earning below $91,500 are people of color, compared to just 21% of families earning above this level.

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Louisiana Budget Project

Race and taxes in Louisiana

Different types of taxes have different impacts by race and ethnicity. In Louisiana, our regressive sales taxes serve to worsen disparities.

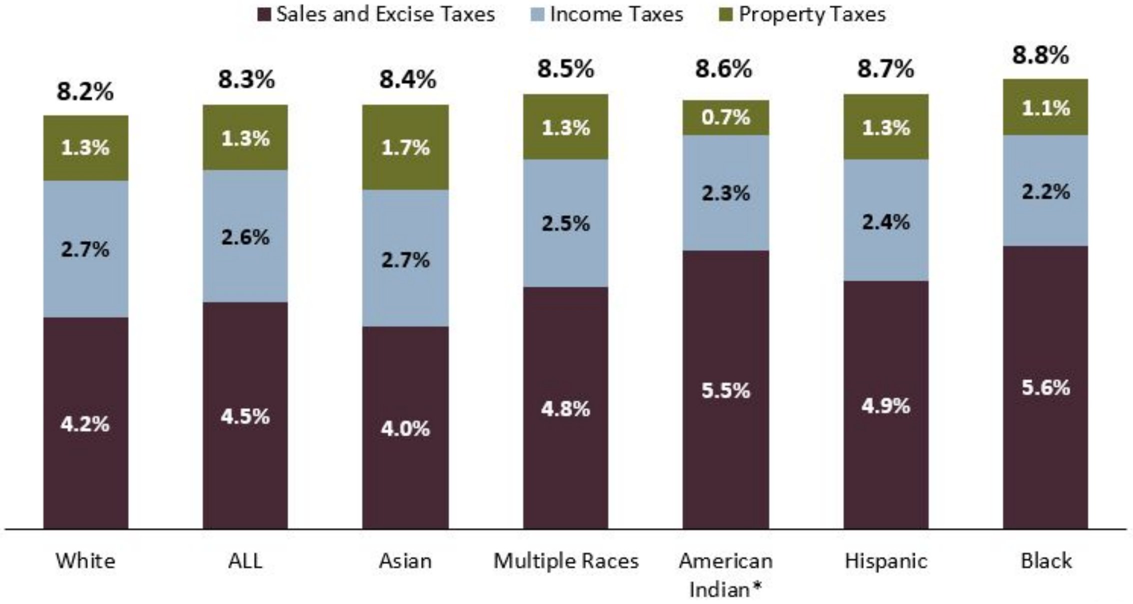
- Black households pay an average effective sales tax rate (5.6%) that is 24% above average effective rate and 33% above that for whites.
- American Indian households pay an average effective sales tax rate (5.5%) that is 22% above average and 31% above white household.
- Similarly, Hispanic households pay average rates (4.9%) that are 9% above average and 17% above white households.

History of state sales tax

In 1932, Mississippi adopted the nation's first modern retail sales tax.[1] The state's governor urged adopting the new tax in part by emphasizing that the revenue would be used to reduce property taxes. What followed was a reduction in overall taxes owed by mostly white property owners and an increase in those owed by Black households that owned little or no property. Louisiana followed and first established a sales tax in 1938.[2]

White households pay the lowest combined tax rate while Black households pay the highest - largely due to sales taxes

State and local taxes as a share of family income



Source: Institute on Taxation and Economic Policy analysis of Census Bureau American Community Survey

* Includes only those tax units living away from federally recognized reservations.

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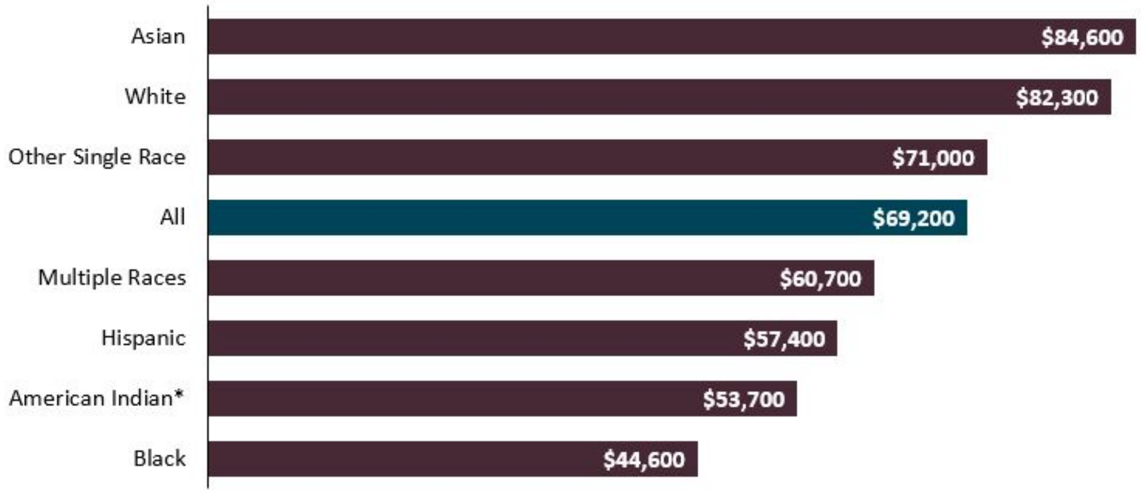
Black household income is about half of white household income in Louisiana

Average household incomes in Louisiana by race and ethnicity



Source: Institute on Taxation and Economic Policy. Data are presented at the “tax unit” level, a concept similar to the household but not identical. Elderly tax units are excluded from these figures.
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The costly Federal Income Tax Deduction

Louisiana is one of only three states - Alabama and Iowa are the others, though Iowa is phasing it out - that lets people and corporations deduct all their federal income taxes on state returns.

This provision, part of the state constitution, makes our income tax much less progressive.

The wealthiest 20% of Louisiana taxpayers reap 86% of the benefits of this costly tax break, which costs the state about $744 million each year in lost revenue in individual income tax and another $120 million from corporations.[3, 4]

The federal income tax deduction means Louisiana revenues are tied to changes in federal income tax policy. When the federal government cuts taxes, Louisiana income tax revenue rises, and when Washington raises income taxes Louisiana revenues go down.

Doing away with this costly and regressive constitutional tax break would require two-thirds supermajority of the legislature and a majority vote of the people.

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Louisiana Budget Project

Making matters worse

Far from advancing equity, Louisiana's tax structure drives an even larger wedge between high- and low-income families, and between white families and families of color.

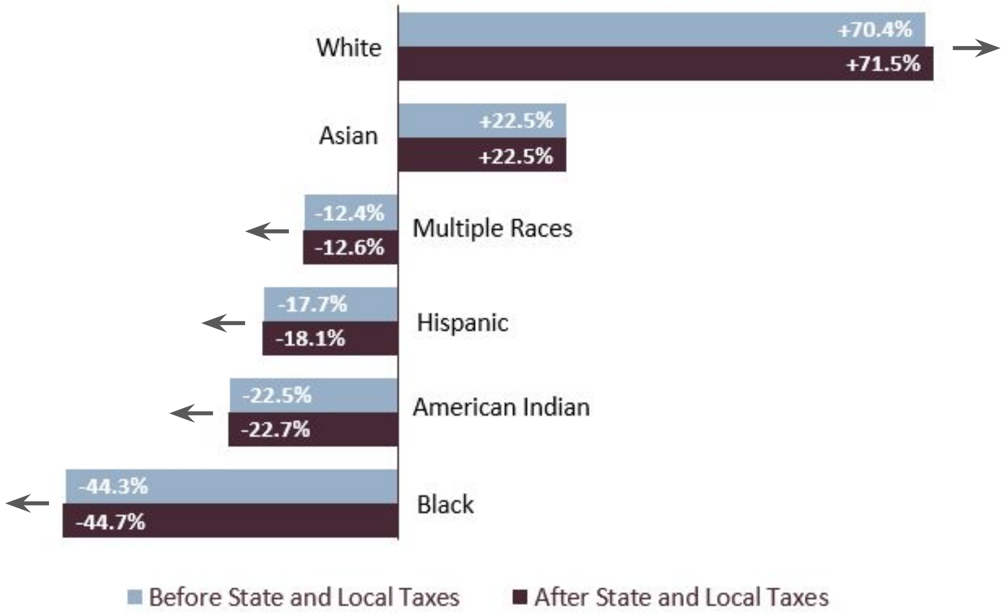
Before taxes, Black households in Louisiana, confronting the combined effects of historic and current discrimination, earn an average of 44.3% less than other households. After Louisiana's regressive taxes are applied, that disparity widens to 44.7%.

White households, by contrast, earn 70.4% more than other households before state and local taxes and 71.5% more than other households after our regressive taxes are applied.

The damaging effects of Louisiana's tax system on racial income inequality make it harder for people of color to make ends meet in the short-run and to build wealth for the long-run.

White families have significantly more income on average than other Louisianans. After taxes, that disparity increases.

Family income by race before and after taxes (percentage relative to all other households).



Source: Institute on Taxation and Economic Policy analysis of Census Bureau American Community Survey
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Timeline of inequity

State tax and fiscal policy is not race neutral. Although we seldom think about these decisions through the lens of racial disparities, the reality is that these policies can be used to advance equity or further inequity. It is easy to overlook the impact of tax and fiscal policy on racial disparities. After all, today's policies don't explicitly mention race. Instead, they are based on seemingly neutral calculations of income, wealth, property value and ownership and the like. However, public policies - and society more broadly - have deepened inequities through discrete choices, many of which were made in overtly racist historic context. Despite this, people and communities of color have made tremendous strides. It is time our state tax system reflect our progress and enable a more just and equitable future.

1877
End of Reconstruction and federal oversight of Southern elections and state constitutions

1890*
Supermajority requirement first enacted in Mississippi [6]
* Most recently in 1970

1932
Mississippi enacts first state sales tax effectively shifting the tax burden from white landowners to Black residents [7]

1938*
State sales tax enacted in Louisiana [8]
*Repealed in 1940 and reinstated in 1942.

1964
President Johnson signs Civil Rights Act

1966*
Louisiana (re)enacts supermajority requirement to raise revenue [9, 17]
* Initially enacted in 1921 or before

1973
Federal income tax deduction favoring wealthiest households last enacted in Louisiana [10]

2002
Louisiana enacts the Stelly Plan eliminating the state sales tax on necessities

2007-08
Louisiana repeals the income tax provisions of the Stelly Plan amid Hurricane Katrina-related recovery leaving future priorities unfunded

Today
Louisiana's tax system is ranked the 14th most unequal in the nation [11]

The Supermajority Requirement

In Louisiana, any new tax, increase to existing tax or repeal of a tax exemption requires a supermajority two-third vote in both chambers of the legislature. Additionally, many changes to the tax system require a constitutional amendment, which also requires a supermajority vote by the legislature and voters.

The first supermajority requirement to raise revenue dates back to Mississippi's state constitutional convention in 1890.[12] The delegate who introduced the supermajority spoke of the convention's work, "All understood and desired that some scheme would be evolved which would effectually remove from the sphere of politics in the State the ignorant and unpatriotic negro." The requirement, which remains today, was enacted along with legislation that effectively disenfranchised the majority of black voters in the state.

Supermajority rules can harm a state's abilities to handle its finances by protecting outdated tax breaks, expanding the power of special interests, and limiting the state's options in responding to recessions. Today, 17 states have some form of supermajority requirement to raise revenue.[13]

Recommendations

Correcting disparities in income by race and ethnicity requires a more progressive system with higher tax rates on affluent residents and comparatively less reliance on the tax dollars paid by lower- and middle-income families.

- Create a **Child Tax Credit** for households earning less than $100,000 per year to help families, especially those with young children. An investment of $165 million would reach nearly 900,000 Louisiana children.[14]
- Permanently expand the **Earned Income Tax Credit** from 5% to 10% to help low-income workers with and without children keep more of what they earn.
- End the **deductibility of federal income taxes** on state returns. Louisiana is one of only three states that allows this unorthodox tax break, which costs the state between $700 and $900 million per year and privileges wealthy households.[15]
- Make our tax structure more fair and less regressive by permanently eliminating the **temporary $0.45 sales tax** that overburdens low income families.
- Tax the wealthiest families by reinstating the **inheritance tax** (as 16 states and D.C. have done), raising rates on **capital gains income** and establishing **millionaires tax.**
- End the **excess itemized deduction** that primarily benefits the wealthiest households in Louisiana and costs the state about $200 million per year.[16]

References

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Methodology

A full discussion of the methodology used to derive these estimates is available from the Institute on Taxation and Economic Policy (ITEP) at https://itep.org/itep-tax-model/iteps-approach-to-modeling-taxes-by-race-and-ethnicity/.

Louisiana Budget Project

For further information:
Stacey Roussel
Policy Director
stacey@labudget.org

The Louisiana Budget Project (LBP) monitors and reports on public policy and how it affects Louisiana's low- to moderate-income families. We believe that the lives of Louisianans can be improved through profound change in public policy, brought about by: creating a deeper understanding of the state budget and budget-related issues, looking at the big picture of how the budget impacts citizens, encouraging citizens to be vocal about budget issues that are important to them, and providing insight and leadership to drive the policy debate.

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