

The Federal Income Tax Deduction:

An opportunity to invest in Louisiana families and children

The Louisiana legislature has an opportunity this legislative session to make significant investments in children and families by eliminating the federal income tax deduction. While some legislators have proposed swapping the federal income tax deduction for income tax cuts, this preserves the status quo that has failed too many Louisiana families for too long. If legislators are serious about making a dent in child poverty and creating opportunity for low and moderate income children and families post-pandemic, the federal income tax deduction should instead be used towards investments in the people of Louisiana.

What is the federal income tax deduction?

The federal income tax deduction allows people who itemize on their state tax returns to subtract the amount of federal taxes paid from their state taxable income. Louisiana is one of six states that allow for this deduction, and one of three that do not cap how much a household can deduct. In short, if someone with an annual income of a million dollars paid \$250,000 in state taxes, Louisiana would only tax them on \$750,000.

State	Year enacted	Credit details
Louisiana	1974	No cap
Alabama	1965	No cap
Iowa	1934	No cap, but projected to phase out in 2023 or 2024
Missouri	1972	Cap of \$5,000 for single, \$10,000 married
Montana	1933	Cap of \$5,000 for single, \$10,000 married
Oregon	1929	Cap of \$6,550 but reduces as income increases

This deduction cost the state of Louisiana \$744 million in 2020, and totaled **\$864 million** when including the federal deduction allowed to corporations. It also ties Louisiana's income taxes to changes made at the federal level. When federal taxes for the wealthy increase, wealthy Louisianans have more money to deduct - therefore reducing state income tax collections.

Louisiana's costly fed deduction

Foregone revenue from individual and corporate income taxes in millions

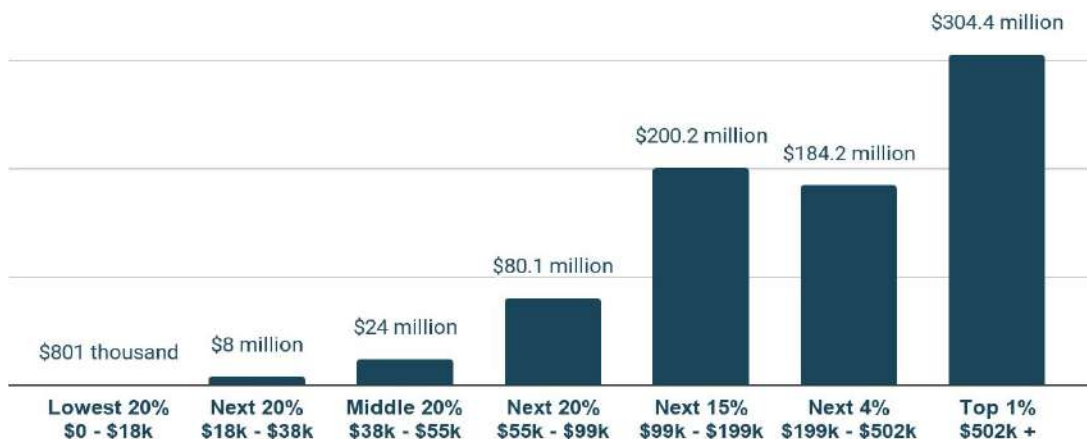


Instead of helping wealthy households avoid paying state taxes, revenue from eliminating the Federal Income Tax Deduction should be used towards unfunded priorities that lift up low and moderate income people and families.

Households in the top 20% of income earners, who have an annual income of more than \$99,000 were collectively able to reduce their tax liability by over \$688 million in 2019 using the federal income tax deduction. While the average middle income household may use the fed deduction to avoid paying a couple hundred dollars, the average household in the top 1% avoided paying \$14,577 using this deduction.

The fed deduction benefits the wealthiest households

Foregone revenue from individual income taxes by household income



In 2020, individuals and corporations avoided paying \$864 million in income taxes due to the federal income tax deduction. **Eliminating this wasteful policy would allow Louisiana to invest in many unfunded priorities that legislators and constituents believe will combat poverty and support children and their families including:**

