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.

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 federal taxes, Louisiana would only tax them on $750,000.

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.

### Table: Federal Income Tax Deduction by State

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

### Louisiana’s costly fed deduction

Foregone revenue from individual and corporate income taxes in millions

- **Individual**
  - 2014: $910
  - 2015: $1,128
  - 2016: $1,056
  - 2017: $1,128
  - 2018: $1,031
  - 2019: $969
  - 2020: $864

- **Corporate**
  - 2014: $174
  - 2015: $200
  - 2016: $215
  - 2017: $175
  - 2018: $203
  - 2019: $121
  - 2020: $120

Total foregone revenue: $744 million
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

$165 million for a state child tax credit for households making under $100,000

$300 million to fully fund Go Grants to financially assist low-income college students and re-invest in higher education

$200 million for teacher pay and support staff pay raises and additional funding for school districts

$86 million for Early Childhood Education for children birth to 3

$50 million to enact child welfare programs such as home visits for families with newborns and substance abuse prevention

$50 million to increase the Earned Income Tax Credit from 5% to 10%

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: