State of Louisiana
Department of Revenue

JEFF LANDRY
GOVERNOR

RICHARD NELSON
SECRETARY

DATE: October 22, 2024

TO: Governor Jeff Landry and Members of the Louisiana Legislature

FROM: Richard Nelson, Secretary of Revenue

SUBJECT: Tax Reform Fiscal Projections

Executive Summary

We thought it would be helpful to provide this brief, outlining variations between estimates provided by the Department of Revenue (LDR) and preliminary analyses by the Legislative Fiscal Office (LFO) for the Louisiana Forward tax reform proposal.

Overall, both estimates are close, with LFO tending to predict larger revenue losses on personal income and smaller revenue gains on sales tax, and LDR predicting larger losses on corporation income and franchise tax. **In total our numerical differences for five years is $156M. The percentage difference for five years is only 6%.**

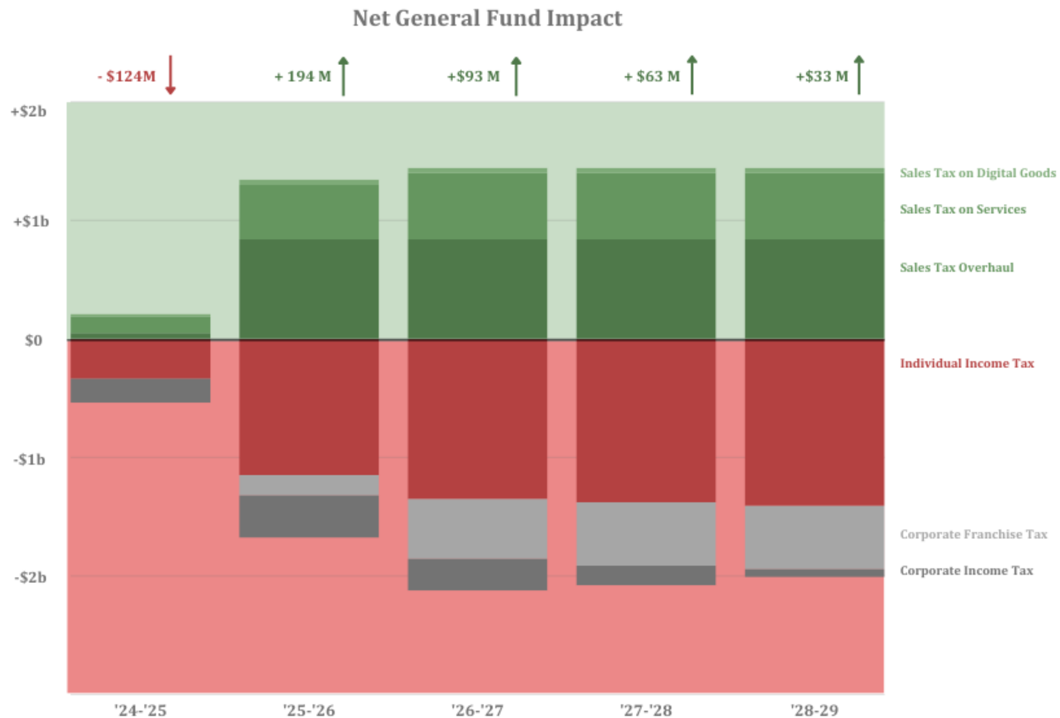
In general, the main deviations are attributable to a few factors:

- LFO using more conservative assumptions of the market size of digital products
- Different treatment of revenue gains from the repeal of credit & incentive programs
- Different assumptions about voluntary compliance and inflation

Overall, for statistical calculations, each agency makes some assumptions that artificially inflate the size of projected revenue losses:

- LFO assumes inflation for provisions that would decrease collections, but does not factor it in situations where it would increase collections (*i.e.* the standard deduction and increased consumption for sales tax)
- LDR does not factor in corporate revenue gains from the repeal of credits & incentives due to the highly speculative nature of predicting corporate accounting behavior
- Neither agency factors in the general fund revenue increase from credits & incentives claimed against individual income, fiduciary income, and sales taxes, which totaled approximately $115 Million last year

Summary Chart



General Fund Revenue Gain

General Fund Revenue Loss

Non-General Fund Revenue Loss

Note: This chart shows the revenue estimates provided by LFO for each piece of legislation, adjusted to reflect the impacts of the package as a whole

Breakdown by Bill

Bill #4: Individual Income Tax Cut

Bill Subject	Reporting Agency	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total	% Difference
Reduce IIT Rate	LDR	$ -	$ (1,200)	$ (1,200)	$ (1,200)	$ (1,200)	$ (4,800)	**-15.81%**
	LFO	$ (334)	$ (1,150)	$ (1,350)	$ (1,380)	$ (1,410)	$ (5,624)	
	Variance	**$ 334**	**$ (50)**	**$ 150**	**$ 180**	**$ 210**	**$ 824**	

Explanation of Variance: The main reason for the variance between LFO and LDR's estimate for the individual income tax reduction is a result of LFO's assumption of a 3% inflation rate which increases the revenue loss. As drafted, the proposal requires adjusting the standard deduction in future years for inflation, but LFO assumes that inflation will happen every year and at the same rate. LDR does not assume this growth, as 3% inflation would likely result in a 3% increase in personal income tax liability, offsetting any revenue loss due to an increase in the standard deduction driven by inflation. It should be noted that LFO historically has not

included inflation factors in calculating revenue changes, and this is the only provision in the package in which inflation is factored into LFO's calculations. Including inflation in calculations for sales tax base expansion, rate changes, and personal income growth would significantly reduce the revenue loss shown by LFO. The revenue loss LFO estimates from inflation increasing the standard deduction is:

- **FY27:** ($26,000,000)
- **FY28:** ($52,000,000)

Another significant difference between LFO and LDR's analysis is the treatment of the deduction for net capital gains and I.R.C. Section 280C. In total, these have typically had a revenue loss of $41-$105 Million. While LDR assumes the repeal of these provisions will result in a revenue gain of $105 Million (the total revenue loss from each provision in the previous fiscal year), LFO does not, assuming these to be an offset for the new bonus depreciation provision, creating a larger revenue loss than LDR.

In total, for FY27, LFO's use of inflation in the standard deduction calculation and exclusion of the revenue gains from the repeals of the net capital gains deduction and I.R.C. Section 280C accounts for $131 Million of the $150 Million variance between LFO and LDR.

Bill #5 and Bill #6: Corporation Franchise Tax Repeal & Corporation Income Tax Cut

Bill Subject	Reporting Agency	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total	% Difference
Reduce CIT Rate	LDR	$ (171)	$ (570)	$ (612)	$ (612)	$ (612)	$ (2,577)	83.11%
	LFO	$ (205)	$ (358)	$ (267)	$ (167)	$ (67)	$ (1,064)	
	Variance	**$ 34**	**$ (212)**	**$ (345)**	**$ (445)**	**$ (545)**	**$ (1,513)**	
Repeal Franchise Tax	LDR	$ (117)	$ (500)	$ (533)	$ (533)	$ (533)	$ (2,216)	23.89%
	LFO	$ -	$ (170)	$ (507)	$ (533)	$ (533)	$ (1,743)	
	Variance	**$ (117)**	**$ (330)**	**$ (26)**	**$ -**	**$ -**	**$ (473)**	

Explanation of Variance: LFO's estimates for revenue loss from the corporate tax changes are significantly lower than LDR's across the board. The main reason is due to the difference in how each agency treats the revenue gain from the repeal of credits and incentive programs. LDR's estimate reports these as an "indeterminable increase", due to the lag time between when credits are granted and claimed creating uncertainty on when revenue gains would be realized, significantly and artificially inflating the revenue loss numbers from the corporate tax changes. LFO assumes a portion of the revenue gain from the reduction in credits claimed each year, starting in FY26, with the value of the revenue gain from credits increasing by 20% each year until they have fully rolled off.

It should also be noted that both LDR and LFO report the corporate tax changes as revenue losses to dedicated funds, because these collections would currently all be diverted to the Revenue Stabilization Fund. The repeal of credits and incentive programs in the Corporation Income Tax bill contain credits that are claimed against the personal income tax and fiduciary income tax and rebates against sales tax, worth about $115 Million in the previous fiscal year.

This would actually be a revenue gain for the general fund but is not noted as such in the current fiscal notes, and would decrease the overall revenue loss of the package once fully realized.

Further, with the repeal of the franchise tax, overpayments of franchise tax (refunds which are carried forward) may be subject to immediate refund. However, depending on each corporation's behavior, the overpayments may be applied to corporation income tax in future years.

Bill #7-Bill #9: Sales Tax Bills

Bill Subject	Reporting Agency	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total	% Difference
Sales Tax - Services	LDR	$ 272	$ 587	$ 587	$ 587	$ 587	$ 2,620	24.08%
	LFO	$ 138	$ 413	$ 502	$ 502	$ 502	$ 2,057	
	Variance	**$ 134**	**$ 174**	**$ 85**	**$ 85**	**$ 85**	**$ 563**	
Sales Tax - Digital Products	LDR	$ 52	$ 92	$ 92	$ 92	$ 92	$ 420	79.07%
	LFO	$ 22	$ 40	$ 40	$ 40	$ 40	$ 182	
	Variance	**$ 30**	**$ 52**	**$ 52**	**$ 52**	**$ 52**	**$ 238**	
Sales Tax - Overhaul	LDR	$ 95	$ 958	$ 958	$ 958	$ 958	$ 3,927	14.09%
	LFO	$ 50	$ 840	$ 840	$ 840	$ 840	$ 3,410	
	Variance	**$ 45**	**$ 118**	**$ 118**	**$ 118**	**$ 118**	**$ 517**	

Explanation of Variance: The largest variance between the LDR and LFO on the sales tax for digital products is due to restraints LFO faces in having to score each piece of legislation independently, with no ability to factor in changes in other pieces of legislation when scoring an individual bill. For sales tax bills, this means that for years after FY25, expected sales tax revenue increases from the sales tax base expansion to digital products and services are calculated using a 4% rate, rather than the package's proposed 4.45% rate (which is contained in the sales tax "clean-up" bill). This difference is substantial, with the 4.45% rate increasing value of the sales tax base expansions by an additional $51 Million in FY26 and an additional $61 Million in subsequent fiscal years.

Additionally, LFO excludes from the sales tax "clean-up" bill revenue for the repeal of the exemption for installation charges, as that is a taxable service in the services bill and would be double-counted if included in the analysis on both bills. LFO also reduces the value of the repealed exemption of vehicles purchased for lease and rental from $65 Million to $32 Million to account for the fact that sales for resale will remain exempt.

The final major variation between LFO and LDR is in the digital products bill, where LFO estimates a significantly smaller market size for newly taxable digital products and assumes a 35% reduction for existing voluntary compliance, compared to LDR's 30% assumption.

It should also be noted that neither LFO nor LDR assume any growth in future collections due to inflation, but as noted above LFO does assume inflation at a rate of 3% in the individual income tax cut bill, increasing the revenue loss from the standard deduction in the fiscal note. If that assumed rate of inflation were applied to the sales tax changes, future year revenue gain projections would be greater.

Conclusion

LFO and LDR employ different, yet both reasonable, methods of estimating the revenue changes associated with such a far reaching tax reform plan. **Despite these differences in methodology, they yield similar results, with a total 5 year variance of just 6%, or $156M.** As the proposals adapt, both agencies will have the opportunity to refine estimates, but the immaterial difference in current estimates, combined with independent analysis also showing minor variance with LDR estimates, provide confidence that the general fund impacts of tax reform will be minimal.