GOVERNOR'S 2018 TAX & BUDGET PRIORITIES

CREATING A STABLE & PREDICTABLE STATE BUDGET

- The State of Louisiana will face a roughly **$1 billion budget shortfall** on July 1, 2018 when the additional penny of sales tax and temporary reductions of tax credits, incentives and deductions roll off the books.

- The Governor is **not calling for net new tax revenue.** Instead, the Governor is advocating for implementing the recommendations of the legislatively created bi-partisan Task Force to reform our tax code and replace the temporary measures enacted in 2015 and 2016.

- Louisiana has the **fifth lowest per capita tax burden in the country** according to the Tax Foundation. However, a study by a Johns Hopkins University professor identified Louisiana as one of the **ten most complex tax structures in the country**. There is a **clear need for reform**.

- **The Governor has cut millions in spending** and worked to make government more efficient. While our economy is rebounding and **unemployment is on the decline**, we have more work to do to sustain the recovery and build a strong foundation for future growth.

- The Governor hosted a series of **ten business roundtables across the state** to engage business leaders, who are on the front lines creating jobs and working to build a strong economy, in discussions about **potential solutions to providing long-term predictability and stability to our state's budget and finances**.

- If action is not quickly taken to replace the revenue that will soon be lost, the state will be left with implementing **deep, unsustainable cuts** the Governor will not support but his administration will be constitutionally required to execute.

- The Governor's plan to avoid the 2018 fiscal cliff and **place Louisiana on a path toward economic success** includes:
    - Make Permanent Reductions to Tax Credits, Deductions and Rebates (Acts 109, 123, 126 of the 2015 Regular Legislative Session)
    - Compress Income Tax Brackets & Reduce Excess Itemized Deduction to 50%
    - Clean all Four Pennies of Sales Tax based on Clean Penny Exemptions
    - Tax Business Utilities at 4% and Industrial Utilities at 2%
    - Expand Sales Tax to Services

- This plan represents an **aggressive but balanced approach to addressing the state's $1 billion fiscal cliff.**

Make Permanent Reductions to Tax Credits, Deductions & Rebates

- Act 109 of the 2015 Regular Session provided limitations on the credit for taxes paid to other states to those states that provide a similar credit for Louisiana income taxes paid on certain sources of income. These limitations will be made permanent.
- Act 123 of the 2015 Regular Session temporarily reduced the value of several corporate income tax exclusions and deductions, including depletion and dividend income. These will be made permanent.
- Act 126 of the 2015 Regular Session temporarily reduced the value of the following rebate programs: Quality Jobs Program, Corporate Headquarters Relocation Program, and the Competitive Projects Payroll Incentive Program. These reductions will be made permanent.

Compress Brackets & Reduce Excess Itemized Deductions to 50%

- Current law allows an individual income tax deduction for 100% of excess federal itemized personal deductions. Excess federal itemized personal deductions are defined as the amount by which the federal itemized personal deductions exceed the amount of the federal standard deduction.
- The proposal will reduce the amount of the deduction from 100% to 50%. Approximately **43% of total itemized deductions are attributable home mortgage interest and charitable contributions** according to 2014 IRS data.
- The proposal will also compress individual income tax brackets.

Clean All Four Pennies of Sales Tax Based on Clean Penny Exemptions

- Expand the sales tax base on the permanent pennies by mirroring the sales tax base of the 5th clean penny.

Tax Business Utilities at 4% and Industrial Utilities at 2%

- Under Act 25 of the 2016 First Extraordinary Session ("Morris Bill"), business utilities are subject to state sales/use tax at the rate of 3% through June 30, 2018 and 1% through March 31, 2019.
- Business utilities are subject to the clean penny of sales tax through June 30, 2018 pursuant to Act 26 of the 2016 First Extraordinary Session ("Jackson Bill"). The total sales tax rate for business utilities through June 30, 2018 is 4% and then 1% through March 31, 2019.
- The proposal will tax business utilities at 4% and create a special rate for industrial users at 2%.

Expand Sales Tax to Services

- Expand the sales tax base to include services such as:
  - Debt collection services
  - Insurance services
  - Data processing services
  - Information services
  - Cable and satellite services
  - Repairs to real property