

## **State Tax Reform, 2024**

### **Individual Income Tax and General Sales Tax**

The administration has announced that it intends to call the legislature into a special session in early November 2024 to consider a multi-faceted package of changes to the state tax system. The proposal is composed of constitutional and statutory changes that address various aspects of the state and local sales tax, individual income tax, property tax, corporate income and franchise tax, severance tax, certain special treasury funds, and procedures of the Department of Economic Development. In preparation for that session, RESET Louisiana, a collaboration of the Council for A Better Louisiana, the Public Affairs Research Council of Louisiana, and the Committee of 100, has commissioned an analysis of the potential implications of the proposed changes to the individual income tax and general sales tax on Louisiana households. This analysis will assess the impact of the major changes proposed to those two taxes by various income cohorts of state individuals and households. This analysis is primarily intended to inform policymakers and the public as to the estimated tax liability consequences to households of the proposed changes to state income and sales taxation. In addition, some commentary regarding the aggregate state fiscal aspects of these components of the package will be made. This analysis does not address the impact on households of the other components of the package, and is in no way an alternative estimate or assessment of the aggregate state fiscal budgetary consequences of personal income and sales tax components of the package or of the package as a whole. It should be noted that the specific provisions of the proposal included in this analysis are those provided by the Department of Revenue (LDR) on September 30, 2024, and do not incorporate any changes to the proposal that may have been made after that date.

The state personal income tax and sales tax are the two state taxes most widely applicable to individuals and households in the state, applying to earned and unearned income, as well as much of the spending of that income<sup>1</sup>. This report primarily examines the distributional effects of the major proposed changes to the state personal income tax and state sales tax liabilities across resident income cohorts. The report will focus first on the income tax, then the sales tax, and then the combination of the two taxes. Estimates of these liabilities are based on a personal income tax microsimulation model, with the model extended to generate estimates of sales tax liabilities. Households and population represented are proxied by the number of state income tax returns filed, and the number of personal and dependent exemptions claimed on those returns. The income concept utilized is federal adjusted gross income (FAGI) reported on returns, stratified by income in the model across various subsets of tax-filers, and summarized in this report. State income tax liabilities are based on actual state income tax filer data and are generated directly by the model<sup>2</sup>. Sales taxable expenditures are based on Consumer Expenditure Survey data compiled by the U.S. Department of Labor, and then combined with the microsimulation model to generate state sales tax liabilities across income cohorts. While any such estimates will be imperfect, especially with respect to any particular taxpayer or household,

---

<sup>1</sup> The individual income tax and sales tax combined made up just under 60% of state government's tax collections in the fiscal year ending June 2023.

<sup>2</sup> The microsimulation model is processing tax year 2022 return information provided by the state Department of Revenue. Tax year 2022 data is the latest most complete year of income tax filing data, inclusive of returns filed under extension.

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

the results reported here can serve as rough approximations of these liabilities and their distribution across income cohorts.

This report will describe major changes to the income tax and sales tax being proposed, some assessment of the aggregate state fiscal effect of those changes, as well as the distributional effects of those changes across different income cohorts. Other metrics describing the distributional effects of the package, along with any other pertinent commentary will also be provided.

#### **Individual Income Tax, General Proposal**

The proposal applies a single 3% tax rate to all taxable income, resulting in a lower marginal tax rate on the current middle and top tiers of tax filers. By increasing the standard deduction, the proposal effectively reduces taxable income for all taxpayers, and eliminates the tax rate entirely on the current bottom tier of tax filers. In addition, \$1,000 deductions for dependents, age 65 and over filers, and the blind are eliminated, which work to partially offset the reduction in taxable income for taxpayers formerly able to claim those deductions. The proposal also doubles the deduction for retirement income for those age 65 or older, reducing taxable income for taxpayers able to claim that deduction. Finally, the deductions for business capital gains and IRC 280C expenses are eliminated, increasing taxable income for taxpayers formerly able to claim those deductions. The current and proposed tax parameters are illustrated in the table below.

<u>Individual Income Tax</u>					
<u>Current Law</u>		<u>Proposed Law</u>			
<u>Taxable Income</u>		<u>Tax Rate</u>	<u>Taxable Income</u>		<u>Tax Rate</u>
Single	Joint		Single	Joint	
\$0 - \$12,500	\$0 - \$25,000	1.85%	\$0 - \$12,500	\$0 - \$25,000	0%
\$12,500 - \$50,000	\$25,000 - \$100,000	3.50%	\$12,500 +	\$25,000 +	3%
\$50,000 +	\$100,000 +	4.25%			
Standard Deduction	\$4,500 / \$9,000		Standard Deduction	\$12,500 / \$25,000	
Dependents etc	\$1,000		Dependents etc	\$0	
Retirement Deduction	\$6,000		Retirement Deduction	\$12,000	
Business Capital Gain Deduction Allowed			Business Capital Gain Deduction Not Allowed		
IRC 280C Expense Deduction Allowed			IRC 280C Expense Deduction Not Allowed		

#### **Individual Income Tax, Distributional Effects**

The table below summarizes the estimated change in state income tax liability over various income cohorts, attributable to the major proposed individual income tax changes above that apply to taxpayers in general: the tax rate changes, standard deduction changes, and personal exemption changes<sup>3</sup>. The table illustrates that, on average, all resident filers are likely to see a reduction in their state income tax liability as a result of the proposed changes. Also of note in the table is the fact that while the absolute dollar amount of tax reduction gets larger as income

<sup>3</sup> Distributional tables only reflect resident tax filers, and do not include returns with zero or negative federal adjusted gross income. In the 2022 tax year dataset, there were 1,702,726 resident returns with 55,245 reporting zero or negative federal adjusted gross income.

# State Tax Reform, 2024

## Individual Income Tax and General Sales Tax

rises, the percentage of liability reduction tends to be larger at lower incomes. Thus, the proposed income tax changes appear to increase the progressivity of the state income tax, and this is illustrated later in the report.

### DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY ALL RESIDENT FILERS TAX TABLE LIABILITY BASIS\*\* TAX YEAR 2022 TAX RETURNS

Cumu. Return %	Federal Gross Income	Adjusted Income	Number Returns	Average FAGI <sup>1</sup>	Curr Effec Tax Rate <sup>2</sup>	Curr Law Tax Liability	Prop Law Tax Liability	Income Tax \$ Change	Income Tax % Change	Prop Effec Inc Tax Rate
3.7%	\$0	\$5,000	64,487	\$2,618	0.0%	\$0	\$0	\$0	0.0%	0.0%
8.7%	\$5,000	\$10,000	86,862	\$7,618	0.4%	\$31	\$0	(\$31)	-100.0%	0.0%
16.1%	\$10,000	\$15,000	128,037	\$12,520	0.7%	\$91	\$5	(\$86)	-94.6%	0.0%
24.0%	\$15,000	\$20,000	136,895	\$17,408	1.2%	\$209	\$53	(\$157)	-74.9%	0.3%
30.9%	\$20,000	\$25,000	120,464	\$22,399	1.6%	\$348	\$107	(\$240)	-69.1%	0.5%
37.3%	\$25,000	\$30,000	109,568	\$27,462	1.8%	\$489	\$188	(\$301)	-61.5%	0.7%
47.9%	\$30,000	\$40,000	183,891	\$34,763	2.0%	\$684	\$354	(\$331)	-48.3%	1.0%
56.1%	\$40,000	\$50,000	143,645	\$44,820	2.1%	\$962	\$599	(\$363)	-37.7%	1.3%
62.8%	\$50,000	\$60,000	116,250	\$54,797	2.3%	\$1,258	\$845	(\$414)	-32.9%	1.5%
68.2%	\$60,000	\$70,000	92,986	\$64,810	2.4%	\$1,553	\$1,066	(\$486)	-31.3%	1.6%
72.6%	\$70,000	\$80,000	76,173	\$74,845	2.5%	\$1,846	\$1,296	(\$550)	-29.8%	1.7%
76.3%	\$80,000	\$90,000	63,491	\$84,856	2.5%	\$2,136	\$1,528	(\$608)	-28.5%	1.8%
79.4%	\$90,000	\$100,000	54,392	\$94,891	2.6%	\$2,456	\$1,791	(\$664)	-27.0%	1.9%
84.5%	\$100,000	\$120,000	88,709	\$109,550	2.7%	\$2,937	\$2,179	(\$758)	-25.8%	2.0%
88.2%	\$120,000	\$140,000	64,403	\$129,492	2.9%	\$3,692	\$2,756	(\$936)	-25.4%	2.1%
90.9%	\$140,000	\$160,000	47,238	\$149,497	3.0%	\$4,525	\$3,358	(\$1,167)	-25.8%	2.2%
92.9%	\$160,000	\$180,000	33,752	\$169,478	3.2%	\$5,367	\$3,964	(\$1,403)	-26.1%	2.3%
94.3%	\$180,000	\$200,000	24,527	\$189,524	3.3%	\$6,199	\$4,556	(\$1,643)	-26.5%	2.4%
96.4%	\$200,000	\$250,000	35,948	\$221,760	3.4%	\$7,556	\$5,521	(\$2,035)	-26.9%	2.5%
97.4%	\$250,000	\$300,000	17,878	\$272,613	3.6%	\$9,692	\$7,035	(\$2,657)	-27.4%	2.6%
98.0%	\$300,000	\$350,000	10,519	\$323,061	3.7%	\$11,824	\$8,545	(\$3,279)	-27.7%	2.6%
98.4%	\$350,000	\$400,000	7,097	\$373,511	3.7%	\$13,978	\$10,067	(\$3,910)	-28.0%	2.7%
98.7%	\$400,000	\$450,000	4,987	\$423,426	3.8%	\$16,041	\$11,529	(\$4,512)	-28.1%	2.7%
98.9%	\$450,000	\$500,000	3,494	\$473,837	3.8%	\$18,158	\$13,031	(\$5,128)	-28.2%	2.8%
99.2%	\$500,000	\$600,000	4,839	\$546,326	3.9%	\$21,241	\$15,208	(\$6,033)	-28.4%	2.8%
99.4%	\$600,000	\$700,000	3,075	\$646,934	3.9%	\$25,380	\$18,136	(\$7,244)	-28.5%	2.8%
99.5%	\$700,000	\$800,000	2,075	\$747,609	4.0%	\$29,604	\$21,125	(\$8,479)	-28.6%	2.8%
99.6%	\$800,000	\$900,000	1,508	\$848,790	3.9%	\$33,490	\$23,883	(\$9,607)	-28.7%	2.8%
99.6%	\$900,000	\$1,000,000	1,164	\$946,752	4.0%	\$37,570	\$26,767	(\$10,803)	-28.8%	2.8%
100.0%	\$1,000,000 plus		6,376	\$2,716,935	3.8%	\$103,051	\$73,064	(\$29,987)	-29.1%	2.7%
			1,734,730							

**Current Law Scenario (Single / Joint)**

Rates	
\$0 - \$12,500 / \$0 - \$25,000	1.85%
\$12,500 - \$50,000 / \$50,000 - \$100,000	3.50%
\$50,000 + / \$100,000 +	4.25%

**Standard Deduction and Personal Exemptions**

\$4,500 / \$9,000 / \$1,000 Dependent & Other Personal Exs

**Proposed Law Scenario (Single/Joint)**

Rates	
<b>\$0 - \$12,500 / \$0 - \$25,000</b>	<b>0%</b>
<b>\$12,500+ / \$25,000+</b>	<b>3%</b>

**Standard Deduction and Personal Exemptions**

**\$12,500 / \$25,000 / \$0 Dependent & Other Personal Exemptions**

\*\* Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.

1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.

2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

Income tax returns can be fairly representative of the population of households and individuals in the state. While the filer count is an imperfect proxy for households, it is close to the Census Bureau count of households in the state<sup>4</sup>. The number of persons claimed on returns exhibits a larger discrepancy, reflecting 83% of the Census population estimate of the state. Some of this discrepancy is explained by the omission in the distributional tables of filers reporting zero or less FAGI. The balance of the population discrepancy likely reflects segments of the population that are not required to and/or do not file tax returns<sup>5</sup>.

<sup>4</sup> Census Bureau QuickFacts for Louisiana estimate 1,765,264 households in the state during the 2018-2022 period.

<sup>5</sup> Other than noncompliance, a reason for not filing a state return is that the filing of a federal tax return is not required. Generally, a federal return is not required if income is less than the applicable standard deduction.

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

The table above is a high-level summary of income tax data for over 1.7 million returns aggregated into just thirty income cohort rows. While the average FAGI for returns contained in each cohort is fairly close to the mid-point of each cohort's FAGI range (in most cases less than one-half of one percent deviation), the returns in each cohort reflect a variety of filing statuses and filing circumstances<sup>6</sup>. Comparisons of average filer results in any particular cohort to an actual known filer must keep those aggregations in mind.

In addition, the extreme low and high FAGI cohorts of the table must be viewed with some additional caution. At the low-income extreme, over 55,000 resident returns were filed reporting zero or negative FAGI. While those returns are explicitly not included in the table above, the ability of some higher income tax-filers to generate very low FAGI likely influences the first few income cohorts to some extent<sup>7</sup>. At the high-income extreme, the top cohort of the table of FAGI of \$1 million or more, the upper range of income aggregated in that row is not fixed, but is open-ended. Thus, the average results reflected in that cohort are not necessarily as representative of all the filers contained in the cohort as would be the case in lower income cohorts. In addition, it should be noted that the tax estimates above are estimates of income tax liability. While based on actual tax filing data, no accounting for avoidance of liability through under-reporting has been considered<sup>8</sup>.

Again, note that the distributional effect estimated above reflects the change in tax rate, standard deduction, and personal exemptions, and does not incorporate the effects of doubling the retirement income deduction, nor the elimination of the deductions for net business capital gains and IRC 280C expenses. While the aggregate amount of deduction claimed on 2022 tax returns is comparable for retirement income (\$1.207 billion) and net business capital gains (\$1.228 billion), the retirement income deduction is claimed widely across income cohorts while the business capital gains deduction is concentrated in considerably fewer and generally higher income cohorts. The IRC 208C expense deduction is connected to a certain federal expense credit and deduction election, is more complicated, is much smaller (\$37.5 million), and appears in even fewer income cohorts. Since the retirement income deduction<sup>9</sup> is the most widely claimed

---

<sup>6</sup> Filing statuses include single, married filing separate, joint, qualifying widower, and head-of-household. Other filing circumstances include filing with and without schedule E adjustments to income, and with and without federal itemized deductions, as well as variations in family size and any other factors relevant to a tax situation.

<sup>7</sup> For example, 2021 federal income tax data for Louisiana filers indicates that within the 11,920 returns with FAGI under \$1 a total of \$455 million of negative business or profession net income was reported, and within the 5,880 returns in that FAGI cohort a total of \$1.270 billion of negative partnership/S-corp net income was reported. Total negative partnership/S-corp net income was reported within FAGI income cohorts up to \$25,000.

<sup>8</sup> Additionally, these are estimates of tax table liability before credits. Tax provisions generating tax table liability are generally applicable to all filers, while credits are unique to the particular circumstances of a taxpayer and credit provision.

<sup>9</sup> Louisiana allows persons 65 years or older to exclude up to \$6,000 of annual retirement income from their taxable income. Taxpayers that are married filing jointly and are both age 65 or older can each exclude up to \$6,000 of annual retirement income. If only one spouse has retirement income, the exclusion is limited to \$6,000.

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

deduction of these three, the effect of doubling that deduction on average results is combined with the rate and base changes discussed above, and presented in the table below.

Reflective of the widely utilized retirement income deduction, note that in every income cohort above \$20,000 of FAGI the average tax reduction is larger with the inclusion of the doubling of the retirement deduction. This occurs even though only 16% of all resident returns are filed by taxpayers 65 or older with schedule E adjustments to income such as the retirement income deduction, and some of those filers will not necessarily claim a retirement income deduction.

#### DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY ALL RESIDENT FILERS TAX TABLE LIABILITY BASIS\*\* TAX YEAR 2022 TAX RETURNS

Cumu. Return %	Federal Gross Income	Adjusted Income	Number Returns	Average FAGI <sup>1</sup>	Curr Effec Tax Rate <sup>2</sup>	Curr Law Tax Liability	Prop Law Tax Liability	Income Tax \$ Change	Income Tax % Change	Prop Effec Inc Tax Rate
3.7%	\$0	\$5,000	64,487	\$2,618	0.0%	\$0	\$0	\$0	0.0%	0.0%
8.7%	\$5,000	\$10,000	86,862	\$7,618	0.4%	\$31	\$0	(\$31)	-100.0%	0.0%
16.1%	\$10,000	\$15,000	128,037	\$12,520	0.7%	\$91	\$5	(\$86)	-94.6%	0.0%
24.0%	\$15,000	\$20,000	136,895	\$17,408	1.2%	\$209	\$53	(\$157)	-74.9%	0.3%
30.9%	\$20,000	\$25,000	120,464	\$22,399	1.6%	\$348	\$105	(\$243)	-69.8%	0.5%
37.3%	\$25,000	\$30,000	109,568	\$27,462	1.8%	\$489	\$181	(\$307)	-62.9%	0.7%
47.9%	\$30,000	\$40,000	183,891	\$34,763	2.0%	\$684	\$346	(\$338)	-49.4%	1.0%
56.1%	\$40,000	\$50,000	143,645	\$44,820	2.1%	\$962	\$583	(\$379)	-39.4%	1.3%
62.8%	\$50,000	\$60,000	116,250	\$54,797	2.3%	\$1,258	\$824	(\$434)	-34.5%	1.5%
68.2%	\$60,000	\$70,000	92,986	\$64,810	2.4%	\$1,553	\$1,042	(\$511)	-32.9%	1.6%
72.6%	\$70,000	\$80,000	76,173	\$74,845	2.5%	\$1,846	\$1,269	(\$578)	-31.3%	1.7%
76.3%	\$80,000	\$90,000	63,491	\$84,856	2.5%	\$2,136	\$1,497	(\$639)	-29.9%	1.8%
79.4%	\$90,000	\$100,000	54,392	\$94,891	2.6%	\$2,456	\$1,758	(\$698)	-28.4%	1.9%
84.5%	\$100,000	\$120,000	88,709	\$109,550	2.7%	\$2,937	\$2,145	(\$792)	-27.0%	2.0%
88.2%	\$120,000	\$140,000	64,403	\$129,492	2.9%	\$3,692	\$2,724	(\$969)	-26.2%	2.1%
90.9%	\$140,000	\$160,000	47,238	\$149,497	3.0%	\$4,525	\$3,327	(\$1,198)	-26.5%	2.2%
92.9%	\$160,000	\$180,000	33,752	\$169,478	3.2%	\$5,367	\$3,932	(\$1,435)	-26.7%	2.3%
94.3%	\$180,000	\$200,000	24,527	\$189,524	3.3%	\$6,199	\$4,525	(\$1,674)	-27.0%	2.4%
96.4%	\$200,000	\$250,000	35,948	\$221,760	3.4%	\$7,556	\$5,487	(\$2,068)	-27.4%	2.5%
97.4%	\$250,000	\$300,000	17,878	\$272,613	3.6%	\$9,692	\$7,000	(\$2,691)	-27.8%	2.6%
98.0%	\$300,000	\$350,000	10,519	\$323,061	3.7%	\$11,824	\$8,506	(\$3,318)	-28.1%	2.6%
98.4%	\$350,000	\$400,000	7,097	\$373,511	3.7%	\$13,978	\$10,030	(\$3,948)	-28.2%	2.7%
98.7%	\$400,000	\$450,000	4,987	\$423,426	3.8%	\$16,041	\$11,490	(\$4,552)	-28.4%	2.7%
98.9%	\$450,000	\$500,000	3,494	\$473,837	3.8%	\$18,158	\$12,992	(\$5,166)	-28.5%	2.7%
99.2%	\$500,000	\$600,000	4,839	\$546,326	3.9%	\$21,241	\$15,172	(\$6,069)	-28.6%	2.8%
99.4%	\$600,000	\$700,000	3,075	\$646,934	3.9%	\$25,380	\$18,101	(\$7,279)	-28.7%	2.8%
99.5%	\$700,000	\$800,000	2,075	\$747,609	4.0%	\$29,604	\$21,087	(\$8,517)	-28.8%	2.8%
99.6%	\$800,000	\$900,000	1,508	\$848,790	3.9%	\$33,490	\$23,847	(\$9,643)	-28.8%	2.8%
99.6%	\$900,000	\$1,000,000	1,164	\$946,752	4.0%	\$37,570	\$26,731	(\$10,839)	-28.8%	2.8%
100.0%	\$1,000,000 plus		6,376	\$2,716,935	3.8%	\$103,051	\$73,030	(\$30,021)	-29.1%	2.7%
			1,734,730							

**Current Law Scenario (Single / Joint)**

Scenario	Rates
\$0 - \$12,500 / \$0 - \$25,000	1.85%
\$12,500 - \$50,000 / \$50,000 - \$100,000	3.50%
\$50,000+ / \$100,000 +	4.25%

**Standard Deduction and Personal Exemptions**

\$4,500 / \$9,000 / \$1,000 Dependent & Other Personal Exs  
\$6,000 Retirement Income Deduction

**Proposed Law Scenario (Single/Joint)**

Scenario	Rates
\$0 - \$12,500 / \$0 - \$25,000	0%
\$12,500+ / \$25,000+	3%

**Standard Deduction and Personal Exemptions**

\$12,500 / \$25,000 / \$0 Dependent & Other Personal Exemptions  
\$12,000 Retirement Income Deduction

\*\* Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.

1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.

2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

The table below incorporates the elimination of the net business capital gain deduction<sup>10</sup> and illustrates the greater concentration of that deduction in fewer income cohorts. The table illustrates that not until FAGI reaches at least \$70,000 does the elimination of the net business capital gain deduction change the average effect of the all the changes evaluated so far, and even then the effect is only \$1 per return on average until FAGI reaches at least \$160,000 where the

<sup>10</sup> Louisiana allows a deduction for net capital gains resulting from the sale/exchange of an equity interest or from the sales/exchange of substantially all of the assets of a non-publicly traded corporation, partnership, limited liability company, or other business organization commercially domiciled in Louisiana. The business must have been held a minimum of five years immediately prior to the sale/exchange. The amount of the gain allowed to be deducted escalates from 30% when held for 5 – 10 years to 100% when held 30 years of more.

# State Tax Reform, 2024

## Individual Income Tax and General Sales Tax

average effect is only \$2. Material effects on average return effects don't occur until FAGI reaches \$500,000 and more. These relatively small average effects are not to say that particular taxpayers won't be more significantly affected, but do illustrate that a relatively small number of taxpayers are affected in most income cohorts. Thus, elimination of the net business capital gains deduction has its most significant effects on taxpayers in the top 1% - 2% of incomes.

### DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY ALL RESIDENT FILERS TAX TABLE LIABILITY BASIS\*\* TAX YEAR 2022 TAX RETURNS

Federal Adjusted Gross Income	Number Returns	Average FAGI <sup>1</sup>	Curr Effec Tax Rate <sup>2</sup>	Curr Law Tax Liability	Prop Law Tax Liability	Income Tax \$ Change	Income Tax % Change	Prop Effec Inc Tax Rate
\$0 - \$5,000	64,487	\$2,618	0.0%	\$0	\$0	\$0	0.0%	0.0%
\$5,000 - \$10,000	86,862	\$7,618	0.4%	\$31	\$0	(\$31)	-100.0%	0.0%
\$10,000 - \$15,000	128,037	\$12,520	0.7%	\$91	\$5	(\$86)	-94.6%	0.0%
\$15,000 - \$20,000	136,895	\$17,408	1.2%	\$209	\$53	(\$157)	-74.9%	0.3%
\$20,000 - \$25,000	120,464	\$22,399	1.6%	\$348	\$105	(\$243)	-69.8%	0.5%
\$25,000 - \$30,000	109,568	\$27,462	1.8%	\$489	\$181	(\$307)	-62.9%	0.7%
\$30,000 - \$40,000	183,891	\$34,763	2.0%	\$684	\$346	(\$338)	-49.4%	1.0%
\$40,000 - \$50,000	143,645	\$44,820	2.1%	\$962	\$583	(\$379)	-39.4%	1.3%
\$50,000 - \$60,000	116,250	\$54,797	2.3%	\$1,258	\$824	(\$434)	-34.5%	1.5%
\$60,000 - \$70,000	92,986	\$64,810	2.4%	\$1,553	\$1,042	(\$511)	-32.9%	1.6%
\$70,000 - \$80,000	76,173	\$74,845	2.5%	\$1,846	\$1,269	(\$577)	-31.3%	1.7%
\$80,000 - \$90,000	63,491	\$84,856	2.5%	\$2,136	\$1,497	(\$638)	-29.9%	1.8%
\$90,000 - \$100,000	54,392	\$94,891	2.6%	\$2,456	\$1,758	(\$697)	-28.4%	1.9%
\$100,000 - \$120,000	88,709	\$109,550	2.7%	\$2,937	\$2,146	(\$791)	-26.9%	2.0%
\$120,000 - \$140,000	64,403	\$129,492	2.9%	\$3,692	\$2,725	(\$968)	-26.2%	2.1%
\$140,000 - \$160,000	47,238	\$149,497	3.0%	\$4,525	\$3,328	(\$1,197)	-26.5%	2.2%
\$160,000 - \$180,000	33,752	\$169,478	3.2%	\$5,367	\$3,933	(\$1,433)	-26.7%	2.3%
\$180,000 - \$200,000	24,527	\$189,524	3.3%	\$6,199	\$4,527	(\$1,672)	-27.0%	2.4%
\$200,000 - \$250,000	35,948	\$221,760	3.4%	\$7,556	\$5,493	(\$2,063)	-27.3%	2.5%
\$250,000 - \$300,000	17,878	\$272,613	3.6%	\$9,692	\$7,010	(\$2,682)	-27.7%	2.6%
\$300,000 - \$350,000	10,519	\$323,061	3.7%	\$11,824	\$8,524	(\$3,300)	-27.9%	2.6%
\$350,000 - \$400,000	7,097	\$373,511	3.7%	\$13,978	\$10,061	(\$3,917)	-28.0%	2.7%
\$400,000 - \$450,000	4,987	\$423,426	3.8%	\$16,041	\$11,535	(\$4,506)	-28.1%	2.7%
\$450,000 - \$500,000	3,494	\$473,837	3.8%	\$18,158	\$13,062	(\$5,097)	-28.1%	2.8%
\$500,000 - \$600,000	4,839	\$546,326	3.9%	\$21,241	\$15,273	(\$5,968)	-28.1%	2.8%
\$600,000 - \$700,000	3,075	\$646,934	3.9%	\$25,380	\$18,280	(\$7,100)	-28.0%	2.8%
\$700,000 - \$800,000	2,075	\$747,609	4.0%	\$29,604	\$21,313	(\$8,291)	-28.0%	2.9%
\$800,000 - \$900,000	1,508	\$848,790	3.9%	\$33,490	\$24,243	(\$9,247)	-27.6%	2.9%
\$900,000 - \$1,000,000	1,164	\$946,752	4.0%	\$37,570	\$27,180	(\$10,390)	-27.7%	2.9%
\$1,000,000 plus	6,376	\$2,716,935	3.8%	\$103,051	\$78,140	(\$24,911)	-24.2%	2.9%
	1,734,730							

**Current Law Scenario (Single / Joint)**

Rates	
\$0 - \$12,500 / \$0 - \$25,000	1.85%
\$12,500 - \$50,000 / \$50,000 - \$100,000	3.50%
\$50,000 + / \$100,000 +	4.25%

**Standard Deduction and Personal Exemptions**

\$4,500 / \$9,000 / \$1,000 Dependent & Other Personal Exs  
\$6,000 Retirement Income Deduction  
Business Sale Capital Gains Deduction Allowed

**Proposed Law Scenario (Single/Joint)**

Rates	
<b>\$0 - \$12,500 / \$0 - \$25,000</b>	<b>0%</b>
<b>\$12,500+ / \$25,000+</b>	<b>3%</b>

**Standard Deduction and Personal Exemptions**

**\$12,500 / \$25,000 / \$0 Dependent & Other Personal Exemptions**  
**\$12,000 Retirement Income Deduction**  
**Business Sale Capital Gains Deduction Not Allowed**

\*\* Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.

<sup>1</sup> FAGI stands for federal adjusted gross income; the starting point for the state income tax return.

<sup>2</sup> Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

Finally, the table below incorporates the elimination of the IRC 280C Expense deduction<sup>11</sup>. Its relatively small effect on taxpayers on average is evident at the \$1 average effect level beginning with incomes exceeding \$120,000, and staying relatively small in effect even in incomes in excess of \$1 million. Again, these relatively small average effects are not to say that particular taxpayers

<sup>11</sup> Louisiana allows a deduction of any expenses disallowed on federal returns by IRC Section 280C in calculating Louisiana taxable income for an individual. Internal Revenue Code Section 280C requires a taxpayer who elects to claim certain credits that are based on an expense to reduce the federal deduction for the expense by the dollar amount of the credit claimed.

# State Tax Reform, 2024

## Individual Income Tax and General Sales Tax

won't be more significantly affected, but do illustrate that a relatively small number of taxpayers are affected in most income cohorts.

### DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY ALL RESIDENT FILERS TAX TABLE LIABILITY BASIS\*\* TAX YEAR 2022 TAX RETURNS

Federal Adjusted Gross Income	Number Returns	Average FAGI <sup>1</sup>	Curr Effec Tax Rate <sup>2</sup>	Curr Law Tax Liability	Prop Law Tax Liability	Income Tax \$ Change	Income Tax % Change	Prop Effec Inc Tax Rate
\$0	\$5,000	64,487	\$2,618	0.0%	\$0	\$0	\$0	0.0%
\$5,000	\$10,000	86,862	\$7,618	0.4%	\$31	\$0	(\$31)	-100.0%
\$10,000	\$15,000	128,037	\$12,520	0.7%	\$91	\$5	(\$86)	-94.6%
\$15,000	\$20,000	136,895	\$17,408	1.2%	\$209	\$53	(\$157)	-74.9%
\$20,000	\$25,000	120,464	\$22,399	1.6%	\$348	\$105	(\$243)	-69.8%
\$25,000	\$30,000	109,568	\$27,462	1.8%	\$489	\$181	(\$307)	-62.9%
\$30,000	\$40,000	183,891	\$34,763	2.0%	\$684	\$346	(\$338)	-49.4%
\$40,000	\$50,000	143,645	\$44,820	2.1%	\$962	\$583	(\$379)	-39.4%
\$50,000	\$60,000	116,250	\$54,797	2.3%	\$1,258	\$824	(\$434)	-34.5%
\$60,000	\$70,000	92,986	\$64,810	2.4%	\$1,553	\$1,042	(\$511)	-32.9%
\$70,000	\$80,000	76,173	\$74,845	2.5%	\$1,846	\$1,269	(\$577)	-31.3%
\$80,000	\$90,000	63,491	\$84,856	2.5%	\$2,136	\$1,498	(\$638)	-29.9%
\$90,000	\$100,000	54,392	\$94,891	2.6%	\$2,456	\$1,758	(\$697)	-28.4%
\$100,000	\$120,000	88,709	\$109,550	2.7%	\$2,937	\$2,146	(\$791)	-26.9%
\$120,000	\$140,000	64,403	\$129,492	2.9%	\$3,692	\$2,725	(\$967)	-26.2%
\$140,000	\$160,000	47,238	\$149,497	3.0%	\$4,525	\$3,328	(\$1,196)	-26.4%
\$160,000	\$180,000	33,752	\$169,478	3.2%	\$5,367	\$3,934	(\$1,433)	-26.7%
\$180,000	\$200,000	24,527	\$189,524	3.3%	\$6,199	\$4,529	(\$1,671)	-26.9%
\$200,000	\$250,000	35,948	\$221,760	3.4%	\$7,556	\$5,494	(\$2,062)	-27.3%
\$250,000	\$300,000	17,878	\$272,613	3.6%	\$9,692	\$7,012	(\$2,680)	-27.7%
\$300,000	\$350,000	10,519	\$323,061	3.7%	\$11,824	\$8,528	(\$3,296)	-27.9%
\$350,000	\$400,000	7,097	\$373,511	3.7%	\$13,978	\$10,069	(\$3,909)	-28.0%
\$400,000	\$450,000	4,987	\$423,426	3.8%	\$16,041	\$11,544	(\$4,497)	-28.0%
\$450,000	\$500,000	3,494	\$473,837	3.8%	\$18,158	\$13,069	(\$5,089)	-28.0%
\$500,000	\$600,000	4,839	\$546,326	3.9%	\$21,241	\$15,278	(\$5,963)	-28.1%
\$600,000	\$700,000	3,075	\$646,934	3.9%	\$25,380	\$18,297	(\$7,083)	-27.9%
\$700,000	\$800,000	2,075	\$747,609	4.0%	\$29,604	\$21,333	(\$8,272)	-27.9%
\$800,000	\$900,000	1,508	\$848,790	3.9%	\$33,490	\$24,256	(\$9,233)	-27.6%
\$900,000	\$1,000,000	1,164	\$946,752	4.0%	\$37,570	\$27,212	(\$10,358)	-27.6%
\$1,000,000 plus		6,376	\$2,716,935	3.8%	\$103,051	\$78,221	(\$24,830)	-24.1%
		1,734,730						

Current Law Scenario (Single / Joint)	Rates
\$0 - \$12,500 / \$0 - \$25,000	1.85%
\$12,500 - \$50,000 / \$50,000 - \$100,000	3.50%
\$50,000 + / \$100,000 +	4.25%

**Standard Deduction and Personal Exemptions**  
 \$4,500 / \$9,000 / \$1,000 Dependent & Other Personal Exs  
 \$6,000 Retirement Income Deduction  
 Business Sale Capital Gains Deduction Allowed  
 IRC 280C Expense Deduction Allowed

Proposed Law Scenario (Single/Joint)	Rates
<b>\$0 - \$12,500 / \$0 - \$25,000</b>	<b>0%</b>
<b>\$12,500+ / \$25,000+</b>	<b>3%</b>

**Standard Deduction and Personal Exemptions**  
**\$12,500 / \$25,000 / \$0 Dependent & Other Personal Exemptions**  
**\$12,000 Retirement Income Deduction**  
**Business Sale Capital Gains Deduction Not Allowed**  
**IRC 280C Expense Deduction Not Allowed**

\*\* Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.

<sup>1</sup> FAGI stands for federal adjusted gross income; the starting point for the state income tax return.

<sup>2</sup> Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

A final comment to make regarding the individual income tax is to note the extent to which business income passed through to personal income returns is exhibited in the tax. It has already been noted above that net business income losses, passed through to personal tax returns tends to distort the concept of low-income households. However, throughout the range of income cohorts, net positive business income is also passed through to personal returns. Thus, to some extent, the income tax reductions estimated here, for filers in particular income cohorts and in the aggregate, is effectively reducing income tax not only of individuals and households, but also of businesses in the state<sup>12</sup>.

<sup>12</sup> Tax year 2021 federal income tax data for Louisiana filers indicates that over \$16 billion of net positive business income could have been passed through to Louisiana personal returns. Pass-through business income of this magnitude would be responsible for an estimated 15% - 20% of the state's personal income tax liabilities.

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

#### Individual Income Tax, Aggregate Results

The microsimulation model allows for an assessment of the likely aggregate dollar effect of the proposed changes to the individual income tax, and the model’s aggregate dollar change for all changes compares favorably to the simulation results generated by the LDR<sup>13</sup>. The table below displays the comparative aggregate results of the two simulations.

#### Aggregate Income Tax Liability Change, Resident Filers

<u>Tax Parameters</u>	<u>LDR Simulation</u>	<u>Model Simulation</u>	<u>% Diff</u>
All changes Ex Ret Ded*	(\$1,169,382,483)	(\$1,163,380,952)	-0.51%
Double Retirement Deduction	(\$35,111,441)	(\$27,201,661)	-22.53%
	(\$1,204,493,924)	(\$1,190,582,613)	-1.15%

\* Includes the 3% single tax rate, \$12,500 / \$25,000 standard deductions, elimination of the \$1,000 deductions for age 65 and older, dependents, and the blind, as well as the deductions for business capital gains and IRC 280C.

As can be seen in the table above, there can be fairly high confidence in the estimated aggregate liability change for resident filers, especially with regard to the changes to tax rate, base, and deductions other than the retirement deduction change. The relatively larger difference in the effect of doubling the retirement deduction is explained by the fact that LDR assumed all claimants were able to double their deduction, even though there will be a portion of those filers that will not be able to avail themselves of the full doubled deduction amount being proposed. The simulation model is working with doubling the average current deduction claimed. The LDR assumption is more conservative, and even with familiar modeling and actual return data to process, there cannot be 100% certainty in the results. Having said that, with the retirement deduction change incorporated, the model simulation is still very close to the LDR estimate.

It should be noted here that the LDR estimate does not appear to include estimates for nonresident or fiduciary returns. While not especially large in the overall income tax, those filers will be affected by the proposed changes, especially the tax rate and standard deduction changes<sup>14</sup>. Simulating nonresident returns has materially larger calibration error, and after adjusting model results for that error, nonresidents may add an additional \$33 million to the aggregate liability reduction. Fiduciary returns are not modeled, but extrapolating from the share of fiduciary tax receipts of FY2022 total income tax receipts suggests a possible additional \$12 million of liability reduction. Again, these additional estimated liability reductions are considerably more uncertain than the resident return liability estimates.

---

<sup>13</sup> A comparison to the LDR simulation results is useful because LDR is able to simulate all 1.7 million returns individually, whereas this report is based on a model that simulates only a few thousand average returns across various subsets of filers and FAGI cohorts. The model also calibrates well to the actual aggregate tax liabilities of 2022 tax filings that it is processing, exhibiting a calibration error for resident filings of only 0.524%.

<sup>14</sup> The tax rate and standard deduction changes are assumed to apply to both nonresident and fiduciary filers.

## **State Tax Reform, 2024**

### **Individual Income Tax and General Sales Tax**

#### **Individual Income Tax, Transition Issues From Liability Changes To Fiscal Year Receipts Changes**

The most uncertainty regarding the estimated effect on the personal income tax revolves around the transition from tax year liability changes to particular fiscal year receipts changes. Assumptions have to be made as to when receipts from withholdings, declarations, and payments with returns will start to be received, as well as the share of tax year returns that will be received in particular fiscal years following the effectiveness of the changes. The timing of associated underpayments, overpayments, and refunds in the transition period need to be recognized in the estimates. Regardless of these typical transition timing issues, another consideration is the implementation of effectiveness provisions. If tax law changes are enacted within a tax year and made effective retroactively to the beginning of the tax year, then material overpayments are made in the initial fiscal year that have to be refunded in the subsequent fiscal year, adding to the difference between tax year liability changes and fiscal year receipts changes. All that said, it typically takes about three fiscal years for changes starting with an initial tax year to be fully transitioned into ongoing fiscal year receipts.

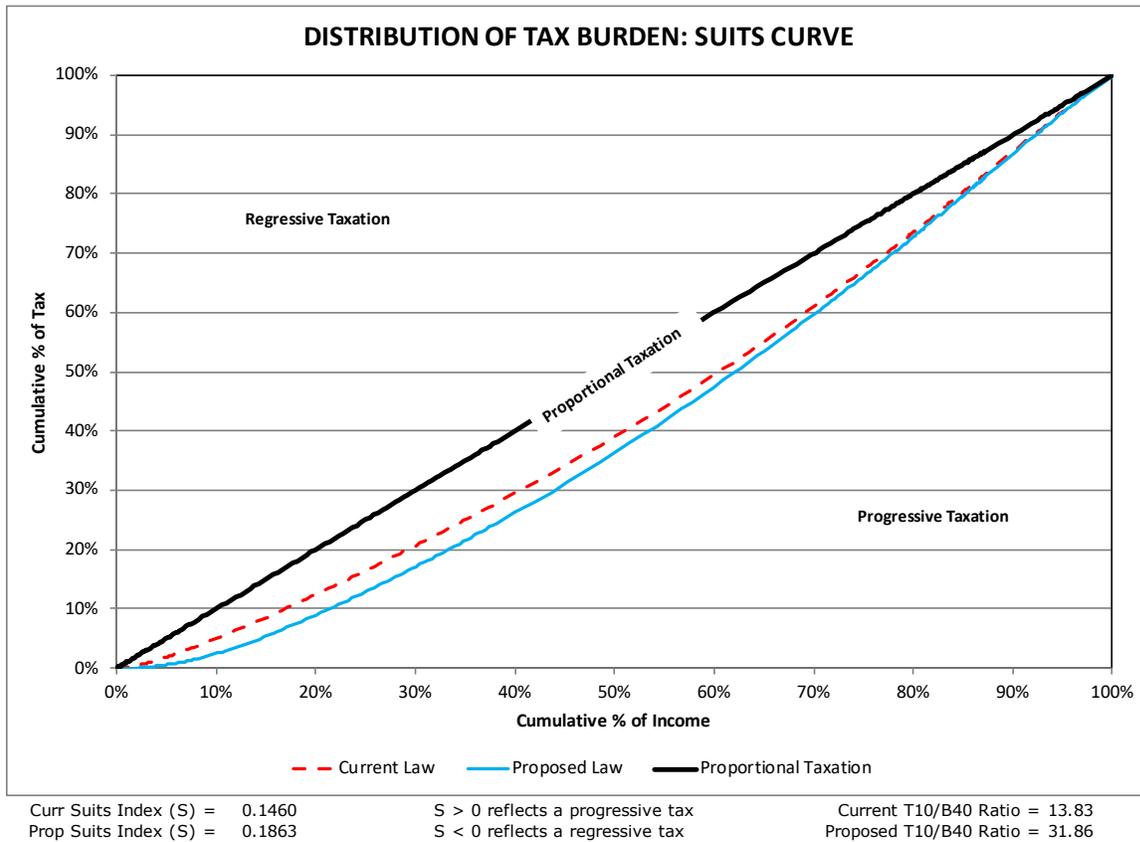
#### **Individual Income Tax Progressivity, Suits Index and Curve**

The graph below displays the cumulative percentage amounts of FAGI and tax liability through the income cohorts. These cumulative values are the basis of a metric and graphic that summarizes the distribution of tax distribution across income cohorts, known as the Suits index and a curve labeled here as the Suits Curve. This summary is depicted and discussed below.

The graph below depicts the cumulative percentage of tax liability associated with the cumulative percentage of FAGI, from the lowest FAGI to the highest FAGI. Along the diagonal line, each cumulative percentage of tax liability is associated with the identical cumulative percentage of FAGI. For example, the bottom 10% of income pays 10% of the tax, the bottom 20% pays 20%, the bottom 30% pays 30% and so on, and the diagonal represents a distribution of tax that would be proportional to income. The actual personal income tax data plots out the current law line (dashed red) of observed tax liability distribution. A progressive tax distribution plots a line below the diagonal where, for example, the bottom 10% of income pays less than 10% of the tax, the bottom 20% pays less than 20%, the bottom 30% pays less than 30% and so on.

The Suits graph below reflects the changes, for all resident filers, to a single tax rate, the larger standard deductions and eliminated personal exemptions, as well as the doubling of the retirement income deduction. The more narrowly applicable net business capital gains deduction and IRC 280C deduction are not included.

## State Tax Reform, 2024 Individual Income Tax and General Sales Tax



The Suits<sup>15</sup> index is a metric that summarizes the entire distribution of tax liability depicted in the graph above. Under current law, the Suits Index (S) = 0.1460 (14.60%), and is the share of area of the bottom-right triangle that lies between the diagonal and the observed current law line (dashed red) of cumulative tax liability. An observed line below the diagonal reflects progressive taxation where lower income shares pay lower shares of the tax, and higher income shares pay higher shares of the tax. The farther the observed line lies into the bottom-right triangle the more progressive the tax, and the larger positive the Suits Index measure of the degree of progressivity<sup>16</sup>. As can be seen in the Suits graph, and summarized by the Suits index value, the current law state individual income tax exhibits progressivity.

Under the proposed changes, the degree of progressivity is modestly increased. The proposed law line (solid blue) of cumulative tax liability plotted against cumulative FAGI lies to the right of the current law line, and the proposed Suits Index value is larger at S = 0.1863 (18.63%).

<sup>15</sup> The Suits Index is credited to American economist Daniel B. Suits, who applied the common summary metric and graphic depiction of income distribution of the Gini coefficient and Lorenz Curve to the analysis of tax liability distributions.

<sup>16</sup> The index is defined as 1 minus the ratio of the area below the observed line to the area of the entire bottom-right triangle of the graph. The more progressive the tax burden, the smaller that ratio becomes (the larger the area between the diagonal and the observed line), and the closer the index value gets to S = 1. At a value of S = 1, the area below the observed line is zero (the entire bottom-right triangle is within the area of progressivity), making the observed line the equivalent of the right-angle segments of the bottom-right triangle of the graph, and the single highest income filer is paying the entire income tax. An observed distribution of tax liability that lies along the diagonal would have an index value of S = 0; the area below the observed line equals the area of the bottom-right triangle, with no area of progressive taxation beneath the diagonal, and the tax liability would be perfectly proportional to income.

## **State Tax Reform, 2024**

### **Individual Income Tax and General Sales Tax**

A supplement to the Suits Index, is a metric that this report will refer to as the Palma-Suits Index<sup>17</sup>, the ratio of the tax liability share of the top 10% of filers to that of the bottom 40% of filers. Whereas the Suits index reflects the entire distribution of the tax liability and is sensitive to the middle of the distribution, the Palma-Suits Index reflects the top and bottom ends of the distribution and ignores the middle. In practice, in a progressive tax system, it measures the multiple of liability of the top 10% of filers relative to bottom 40% of filers. With regard to the current law income tax liabilities, the Palma-Suits Index = 13.83; the top 10% of filers have an aggregate income tax liability that is nearly fourteen times the aggregate liability of the bottom 40% of filers. Under the proposed changes this multiple increases to 31.86; confirming the increased progressivity of the proposal, with respect to the personal income tax.

The focus of the Palma-Suits Index being the ratio of the top 10% income filers to the bottom 40% income filers, it can be noted here that approximately 54% of the aggregate income tax reduction will accrue to the top 10% income filers (FAGI of approximately \$150,000 and up), with 46% accruing to the 90% of filers with lower incomes. To be fair, this result is largely a function of the fact that, in general, higher absolute incomes face higher absolute tax liabilities.

#### **General Sales Tax, General Proposal**

The proposal retains the state 4.45% general sales tax rate and tax base, and expands the tax base to include various digital goods & services and various other services not currently subject to sales tax, and various transactions that currently enjoy a specific exemption from sales tax<sup>18</sup>. Examples of digital goods & services to be included as taxable are purchases of digital products such as ebooks, purchases and streaming of audio and visual music, movies, shows, games, newspapers, magazines, dating applications, cable TV and satellite, as well as software installation, maintenance, and training, and information and access services. Newly taxable services are to include numerous home care and upkeep services such as pest control, waste collection and disposal, housekeeping, housewashing, landscaping and lawn care, swimming pool cleaning and maintenance, installations and repairs of floors, windows, doors, cabinets, countertops, interior design and painting, alarm systems, as well as personal care services such as non-medical diet and weight reduction programs, personal fitness training, spa treatments, massages, tanning, and tattoos. Various other services are also to be taxed such as taxi and ride share, travel services, wrecking and towing, auto and boat storage, and boat launching and marina services. Some services to be taxed are more targeted to businesses rather than individuals or households, such as lobbying, linen supply, operated machinery and equipment rentals, public opinion and research polling, janitorial and maintenance, and repossession

---

<sup>17</sup> Similar to Suits index being an application of the Gini coefficient, from income distribution analysis, to the analysis of tax liability distribution, the Palma-Suits Index of this report is an application of the Palma Ratio, also from income distribution analysis, to the analysis of tax liability distribution. The Palma Ratio (top 10% / bottom 40%) is named for the Chilean economist Jose Gabriel Palma, and has been popularized in income distribution analysis by the British economists Alex Cobham and Andy Sumner.

<sup>18</sup> The state sales tax system is generally structured to include all tangible goods unless specifically exempted, and only defined services. Additions of services to be taxed generally requires a specific definition of the service.

# State Tax Reform, 2024

## Individual Income Tax and General Sales Tax

services. Finally, numerous transactions currently specifically exempt from taxation are to be subject to sales tax. These include sales of motor vehicles for resale, purchases of property for subsequent rental, admissions and fees to various charitable or non-profit events, admissions to museums and school athletic or entertainment events, sales of newspapers, coin-operated washing and drying machines, feminine hygiene products, installation charges on tangible property, as well as a number of transactions involving specific types of business purchases.

### General Sales Tax, Distributional Effects

The table below summarizes the estimated change in state sales tax liability over various income cohorts, attributable to the proposed expansion of the sales tax base to a wide range of new services. The table illustrates that all resident households are likely to see an increase in their state sales tax liability as a result of the proposed changes. Also of note in the table is the fact that the absolute dollar amount of tax increase gets larger as income rises, as well as the percentage of liability increase. Thus, the proposed sales tax changes appear to reduce the overall regressivity of the state sales tax, and this is illustrated later in the report.

**ESTIMATED DISTRIBUTION OF STATE SALES TAX LIABILITY  
INCOME TAX FILINGS AS PROXY FOR HOUSEHOLDS**

Cumu. Return %	Federal Gross Income	Adjusted Income	Number Returns/HHs	Average FAGI <sup>1</sup>	Curr Effec Tax Rate <sup>2</sup>	Current State Sales Tax; 4.45%	Proposed State Sales Tax; 4.45%	Sales Tax \$ Change	Sales Tax % Change	Prop Effec Tax Rate <sup>2</sup>
3.7%	\$0	\$5,000	64,487	\$2,618	4.84%	\$127	\$156	\$29	23%	5.94%
8.7%	\$5,000	\$10,000	86,862	\$7,618	2.15%	\$164	\$204	\$40	25%	2.68%
16.1%	\$10,000	\$15,000	128,037	\$12,520	1.68%	\$210	\$264	\$54	26%	2.11%
24.0%	\$15,000	\$20,000	136,895	\$17,408	1.49%	\$260	\$328	\$68	26%	1.89%
30.9%	\$20,000	\$25,000	120,464	\$22,399	1.23%	\$276	\$351	\$75	27%	1.57%
37.3%	\$25,000	\$30,000	109,568	\$27,462	1.08%	\$297	\$381	\$83	28%	1.39%
47.9%	\$30,000	\$40,000	183,891	\$34,763	0.96%	\$333	\$429	\$96	29%	1.24%
56.1%	\$40,000	\$50,000	143,645	\$44,820	0.85%	\$381	\$495	\$114	30%	1.10%
62.8%	\$50,000	\$60,000	116,250	\$54,797	0.79%	\$432	\$564	\$132	31%	1.03%
68.2%	\$60,000	\$70,000	92,986	\$64,810	0.76%	\$490	\$642	\$152	31%	0.99%
72.6%	\$70,000	\$80,000	76,173	\$74,845	0.74%	\$550	\$722	\$172	31%	0.97%
76.3%	\$80,000	\$90,000	63,491	\$84,856	0.72%	\$612	\$804	\$192	31%	0.95%
79.4%	\$90,000	\$100,000	54,392	\$94,891	0.71%	\$673	\$885	\$212	32%	0.93%
84.5%	\$100,000	\$120,000	88,709	\$109,550	0.84%	\$921	\$1,254	\$333	36%	1.14%
88.2%	\$120,000	\$140,000	64,403	\$129,492	0.86%	\$1,109	\$1,521	\$412	37%	1.17%
90.9%	\$140,000	\$160,000	47,238	\$149,497	0.82%	\$1,221	\$1,671	\$450	37%	1.12%
92.9%	\$160,000	\$180,000	33,752	\$169,478	0.78%	\$1,316	\$1,800	\$483	37%	1.06%
94.3%	\$180,000	\$200,000	24,527	\$189,524	0.74%	\$1,399	\$1,912	\$513	37%	1.01%
96.4%	\$200,000	\$250,000	35,948	\$221,760	0.68%	\$1,511	\$2,064	\$552	37%	0.93%
97.4%	\$250,000	\$300,000	17,878	\$272,613	0.61%	\$1,659	\$2,265	\$605	36%	0.83%
98.0%	\$300,000	\$350,000	10,519	\$323,061	0.55%	\$1,779	\$2,427	\$648	36%	0.75%
98.4%	\$350,000	\$400,000	7,097	\$373,511	0.50%	\$1,885	\$2,571	\$686	36%	0.69%
98.7%	\$400,000	\$450,000	4,987	\$423,426	0.47%	\$1,974	\$2,691	\$717	36%	0.64%
98.9%	\$450,000	\$500,000	3,494	\$473,837	0.43%	\$2,057	\$2,803	\$747	36%	0.59%
99.2%	\$500,000	\$600,000	4,839	\$546,326	0.39%	\$2,152	\$2,933	\$781	36%	0.54%
99.4%	\$600,000	\$700,000	3,075	\$646,934	0.35%	\$2,279	\$3,104	\$826	36%	0.48%
99.5%	\$700,000	\$800,000	2,075	\$747,609	0.32%	\$2,383	\$3,245	\$863	36%	0.43%
99.6%	\$800,000	\$900,000	1,508	\$848,790	0.29%	\$2,478	\$3,374	\$896	36%	0.40%
99.6%	\$900,000	\$1,000,000	1,164	\$946,752	0.27%	\$2,552	\$3,476	\$923	36%	0.37%
100.0%	\$1,000,000 plus		6,376	\$2,716,935	0.11%	\$3,064	\$4,171	\$1,107	36%	0.15%
			1,734,730							

Based on Consumer Expenditure Survey data, compiled by the U.S. Dept of Labor. Estimated expenditures on currently sales-taxable goods & services vs proposed sales taxable goods & services. Includes in-state expenditures by resident households filing income tax returns, and does not include expenditures by non-filing resident households, tourists or businesses.

Estimates of expenditure-based sales tax liability, without regard to any ability to avoid actual tax payment. Number of income tax returns and personal exemptions serve as proxies for resident consumer households and population. Does not include 55,245 returns reporting zero or negative federal adjusted gross income.

Estimates at the lowest and highest income cohorts tend to exhibit somewhat distorted results. 1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return, and the income concept utilized for this analysis.

2 Effective (Effec) tax rate is tax liability divided by FAGI. It reflects the overall tax liability imposed.

## **State Tax Reform, 2024**

### **Individual Income Tax and General Sales Tax**

Caveats with regard to the sales tax distributional estimates above are warranted. The results above are presented as an extension of the income tax microsimulation model in that returns and personal exemption counts serve as proxies for households, and FAGI serves as the income concept from which sales-taxable expenditures are made. Sales tax estimates are based on the Consumer Expenditure Survey for the southeast and national region, compiled by the Bureau of Labor Statistics of the U.S. Department of Labor. Categories of household expenditure encompassing currently taxable goods and services as well as categories encompassing the proposed services that individuals and households are likely to purchase were evaluated for their relationship to the survey's household income<sup>19</sup>. Those relationships were applied to income tax microsimulation model averages of FAGI and personal exemption counts to estimate average sales taxable expenditures of the average household proxied in each FAGI cohort. Those expenditure estimates were multiplied by the state 4.45% sales tax rate to generate estimates of state general sales tax liability by FAGI cohorts for both currently taxable goods & services, and with the addition of the proposed new taxable services<sup>20</sup>.

This procedure generates results that are likely to embody more uncertainty than those reflecting the personal income tax discussed earlier in this report. The sales tax estimates involve an estimating process with more limited information and requiring various judgements. While the consumer expenditure survey data is fairly comprehensive, it is not necessarily comprehensive and consistent with the details of goods & services currently subject to the state sales tax, nor all of the numerous services being proposed for taxation. In some cases, expenditure category matches seemed fairly obvious, and in some cases match were not obvious. In some cases no survey data was available to reflect the transactions being evaluated. For some categories, the estimates are likely overstated and for some understated, with no solid indicators of the net error. Thus, the sales tax estimates in particular are somewhat problematic, and should be taken with a greater degree of caution than the income tax estimates.

---

<sup>19</sup> Only categories subject to state sales tax were evaluated for the current law case. For example, excluded were expenditures on food for home consumption, residential utilities, prescription drugs and portions of the various included categories based on survey details below the broad category levels. Categories encompassing the proposed services were evaluated in a like manner.

<sup>20</sup> The income-expenditure relationships were estimated with a linear ordinary least squares equation for incomes up to approximately \$120,000, and with a logarithmic equation for higher incomes. This accounts for the observed nearly proportionate growth of sales taxable expenditures as income rises at lower income levels, but slower expenditure growth as income rises at higher income levels. Family size was roughly accounted for by applying the division of the linear equation constant by the weighted average number of persons in all households of the survey to the filer personal exemption counts.

## State Tax Reform, 2024 Individual Income Tax and General Sales Tax

### Sales Tax, Aggregate Results

The table below displays the aggregate sales tax estimates of the LDR. A description of the LDR methodology and additional commentary follow the table.

#### Aggregate Sales Tax Liability Change

<u>Tax Parameters</u>	<u>LDR Estimates*</u>
Sales Tax on Digital Goods	\$103,632,589
Sales Tax on New Services	\$564,418,417
Sales Tax Exemptions Cleaned	\$188,326,959
	<hr style="width: 50%; margin-left: auto; margin-right: 0;"/> \$856,377,965

\* Provided by LDR as of September 30, 2024

The LDR estimated the sales tax liability from digital goods and new services by applying the 4.45% sales tax rate to estimates of the Louisiana sales base of each service. The LDR relied on a variety of sources for estimating the Louisiana taxable sales base of the various digital goods & services and new services. Common among those sources was IBIS World, an industry research organization providing a wide range of industry and geography specific indicators and market estimates. Additional sources included other industry research organizations such as Statista, the U.S. Census Bureau's Economic Census, and a number of specific industry research and trade association reports. In some cases, Louisiana specific market information for a particular industry was reported by these sources. In other cases, only a U.S. level value was reported. In those cases, LDR generally pro-rated that national value to Louisiana by the state share of national population. LDR information indicated that in some cases adjustments for inflation were also made. For a few services, sizable downward adjustments in the 40% - 60% range were made to account for portions of purchases likely to be made by businesses with exemption and governmental entities not subject to tax. The sales tax rate was then applied to the base estimates, with the resulting tax estimates summed across the services. In addition, a 30% factor was deducted from the aggregate base estimates to acknowledge noncompliance and existing voluntary remittance behavior.

The tax estimate associated with currently exemption transactions to be subjected to taxation was a sum of the estimated tax value of these exempt transactions contained in the LDR Annual Tax Exemption Budget (TEB). Notably, many of these currently exempt transactions have no numeric tax value in the TEB. Thus, the total value above reflects only those items for which a tax value estimate was contained in the TEB.

Among state revenue estimators, inference of state level tax bases from national level data or from research groups is a common method of estimating tax receipts from changes in tax law. However, such inferences are not necessarily accurate or without uncertainty, even high levels

## State Tax Reform, 2024 Individual Income Tax and General Sales Tax

of uncertainty. The underlying information is not being generated specifically to support tax collection estimation, and numerous assumptions have to be made to translate the inferred base to a tax liability or collection estimate<sup>21</sup>. While such assumptions are necessary, their specific value is arbitrary and simply acknowledges the likely existence of material factors that will ultimately determine specific tax receipts, without necessarily reducing the uncertainty associated with the final estimates. Applied adjustment factors can be both too small and too large, with often little information available to assess the appropriate application of such factors<sup>22</sup>. Considerable caution should be exercised in utilizing estimates generated by inference and necessary assumptions.

The use of TEB information has also been common for state revenue estimators, but such information also has to be taken with a degree of caution, especially with regard to sales tax information. For a number of the exempt transactions being proposed for taxation, the TEB has no information or indicates a negligible tax dollar value. The LDR aggregate value for these transactions is composed of a number fairly small estimates and a few large estimates, primarily the purchases of vehicles and other property for subsequent resale or lease/rental, and the granting of vendor compensation to businesses collecting and remitting the sales tax. Estimates of these particular major items are likely to be reasonable since they are identified on the sales tax form, with their own specified line, for purposes of a vendor calculating and remitting the correct amount of tax. These major items comprise some 73% of the aggregate estimate for exempt transactions proposed for tax<sup>23</sup>. The tax value for the various other transactions within the estimate rely on vendors reporting the exempt values on a portion of the form requiring a correct code, obtained from the form instructions from a list of numerous exempt transactions, for each specifically exempt transaction. This makes the tax value of these transactions more uncertain with regard to both over and under estimation.

The table below displays the model estimate of the sales tax liability change for households for the various newly taxable transactions likely to be a component of household expenditures.

### Aggregate Household Sales Tax Liability Change

<u>Tax Parameters</u>	<u>Model Estimate*</u>
Sales Tax on Newly Taxable Transactions	\$312,567,973

\* Only Household liabilities are considered for all newly taxable transactions combined.

---

<sup>21</sup> Note in the LDR assumptions of pro-ration by population, inflation adjustment, and deduction for business exemptions and governmental purchasers.

<sup>22</sup> For example, pro-ration by population may be reasonable for many situations, but in the case of sales tax estimates, at least for sales taxes to be paid by individuals and households, pro-ration by personal income or disposable personal income may be more appropriate. For business purchases, pro-ration by value added or employment may be more appropriate. Different pro-ration methods may generate only small differences in the pro-ration factor, but that factor may be applied to large bases and result in large differences in estimates.

<sup>23</sup> LDR provided a list of 116 exempt transactions being proposed for tax, with only 3 of this list comprising 73% of the aggregate sum of tax value for this component of the sales tax proposal.

## **State Tax Reform, 2024**

### **Individual Income Tax and General Sales Tax**

Of note is the fact that the model-generated household liability change estimate is significantly smaller than the aggregate sales tax change estimated by LDR. The primary reason for this difference is that the aggregate model estimate is based only on resident households as proxied by resident income tax filings. This excludes individuals and households that don't file a state income tax return, and works to hold down the true household aggregate liability change estimate. In addition, the aggregate model estimate will not include liability changes associated with nonresidents or tourists, nor purchases by businesses. Many of the newly taxable services will likely be purchased in large part or even exclusively by businesses, and thus would not be included in the model estimate for households. While the model estimate of aggregate household liability change is uncertain, and may be understated<sup>24</sup>, it seems likely that households will be responsible for less than half of the increase in aggregate sales tax liability change<sup>25</sup>.

#### **Sales Tax, Transition Issues From Liability Changes To Fiscal Year Receipts Changes**

Transition issues for sales tax changes are generally not as significant as for income tax changes. Most sale tax is collected at the point or time of sale by vendors accustomed and compensated to do this. Remittances are made on a routine monthly or quarterly basis. Thus, for most sales tax changes, receipts will begin reflecting tax changes shortly after the changes are effective. This is particularly true for simple tax rate changes, and for tax base changes that involve goods & services that have been taxed before or are sold along with goods & services already subject to tax. For example, food for home consumption, while currently exempt from state sales tax, is sold alongside household items that are taxable and has been taxable in the past when numerous sales tax exemptions were routinely suspended for a period of years in the state. Thus, subjecting goods such as that to tax would pose little problem for remitters and collectors, and would be exhibited in collections fairly quickly.

However, the transactions being proposed for taxation in this proposal are largely services that have essentially never been subject to sales tax in Louisiana. There is likely to be considerable confusion by the numerous potential remitters as to what is and what is not subject to tax, and even out-right lack of knowledge that services they provide are subject to tax at all. LDR will likely have to expend considerable effort to inform new remitters of their obligations to collect and remit tax, answer remitter inquiries, provide regulatory guidance and clarification, administer disputes, and enforce compliance. In a few instances LDR provided estimates that referenced 40% and 60% deductions from particular estimates for anticipated governmental and business exemptions from the new taxation, as well as a 30% deduction from the aggregate receipts

---

<sup>24</sup> The difference can also be related to any overestimation in the LDR estimates of aggregate sales tax liability change that is being compared to here, as well as error in the model estimates of household contribution aggregates sales tax liability change.

<sup>25</sup> Estimates being presented are essentially of tax remittance, and not true tax incidence, a much more difficult concept to analyze and estimate. To the extent businesses remit more sales tax, they will recoup that cost increase by passing the tax increase onto customers (households and/or other businesses), labor and suppliers, and equity owners, each group comprised of in-state and out-of-state entities. Competitive pressures will ultimately determine how much of this cost increase will be borne by each group (the true incidence of the tax increase).

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

estimates in an overall anticipation of such issues. Without regard to these adjustments by LDR, potential receipts are likely to be received slowly initially with ramp-up of receipts over time as ultimate customers, vendor remitters, and LDR become accustomed and experienced in complying with and enforcing this new taxation. Only after some time, possibly one to two years, will collections settle to what will be their normal stream and growth path.

#### **Sales Tax Regressivity, Suits Index and Curve**

As with the individual income tax, the Suits Index concept can be applied to the sales tax. The same general discussion about the index and curve in the individual income portion of this report applies here with regard to the sales, and will not be repeated at length here. The graph below displays the cumulative percentage amounts of FAGI and sales tax liability through the income cohorts. These cumulative values are the basis of metric and graphic that summarizes the distribution of sales tax burden across income cohorts, known as the Suits index and a curve labeled here as the Suits Curve<sup>26</sup>. This summary is depicted and discussed below.

In the case of the sales tax, both the observed current law line (dashed red) and proposed law line (solid blue) lie above the diagonal, indicating that the sales tax is regressive (lower cumulative shares of households pay higher cumulative shares of the tax). The Suits index metric that summarizes the entire distribution of sales tax liabilities is depicted in the graph below. Under current law, the Suits Index ( $S$ ) =  $-.2358$  (23.58%), and is the share of area of the top-left triangle that lies between the diagonal and the observed current law line of cumulative tax distribution. As can be seen in the Suits graph below, and summarized by the negative Suits index value, the current law state sales tax exhibits regressivity.

Under the proposed changes, the degree of regressivity is modestly decreased. The proposed law line of cumulative tax liability plotted against cumulative FAGI lies to the right of the current law line (closer to the diagonal), and the proposed Suits Index value is a smaller negative value at  $S = -.2219$  (22.19%).

The supplemental Palma-Suits Index, measuring the multiple of liability of the top 10% of taxpayers relative to bottom 40% of taxpayers is also presented for the sales tax. With regard to the current law sales tax liabilities, the Palma-Suits Index = 1.76; the top 10% of taxpayers have an aggregate sales tax liability that is somewhat less than twice that of the aggregate liability of the bottom 40% of taxpayers. Under the proposed changes this multiple increases somewhat to 1.90; confirming the decreased regressivity of the proposal, with respect to the general sales tax.

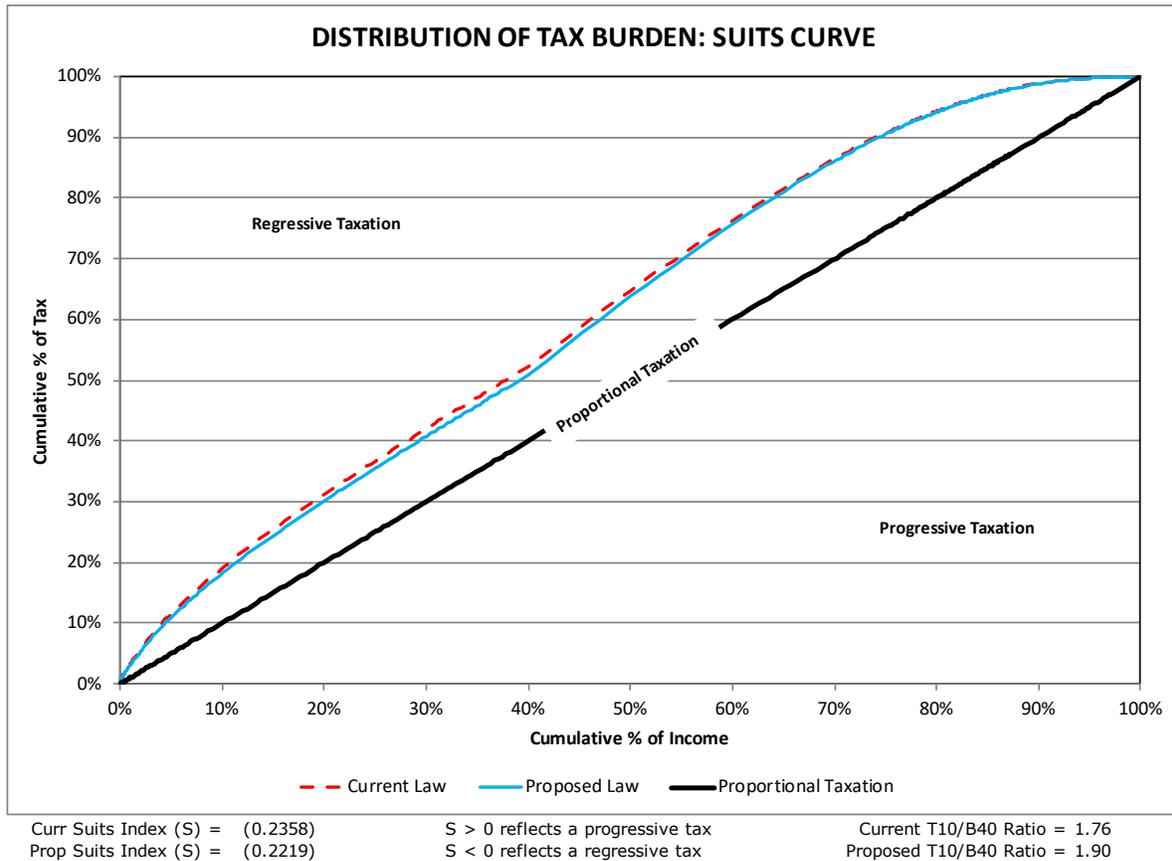
The focus of the Palma-Suits Index being the ratio of the top 10% taxpayers to the bottom 40% taxpayers, it can be noted here that approximately 37% of the aggregate sales tax increase on households will borne by the top 10% of taxpayers (FAGI of approximately \$150,000 and up),

---

<sup>26</sup> Note that the Suits Curve for sales tax distribution is not completely smooth throughout the cumulative FAGI range. This is due to the shift from a linear income to sales tax relationship at lower income ranges to a logarithmic relationship at higher income ranges, creating a discontinuity in the plotted Suits curve.

## State Tax Reform, 2024 Individual Income Tax and General Sales Tax

with 63% borne by the 90% of taxpayers with lower incomes. To be fair, this result is largely a function of the fact that, in general, higher absolute incomes spend higher absolute amounts and will pay higher absolute amounts of sales tax.



### **Combined Individual Income Tax and General Sales Tax, Distributional Effects**

The table below summarizes the estimated combined change in state income and sales tax liability over various income cohorts, attributable to the proposed changes to the individual income tax and general sales tax. In this table, all the income tax changes discussed in this report are included: the tax rate change, standard deduction changes, personal exemption eliminations, the doubling of the retirement income deduction, and the elimination of both the business net capital gains deduction and the IRC 280C deduction. The effect of all of the sales tax base expansion to new services is included.

The table illustrates that most resident households are likely to see a reduction in their combined state income tax and sales tax liability as a result of the proposed changes. As can be seen in the distributional tables above with respect to individuals and households, this results because the income tax reductions are generally larger than the sales tax increases. The table also indicates that, on average, at the lowest income ranges the net combined tax reduction is relatively small

## State Tax Reform, 2024 Individual Income Tax and General Sales Tax

and can even be a tax increase at the very lowest incomes. This can occur because these very low income households currently have very low or even zero income tax liabilities but still have much of their expenditures subject to sales tax. Thus, they receive little income tax reduction but, to the extent they purchase any of the newly taxable services, will have to pay sales tax on those purchases<sup>27</sup>.

Also of note in the table is the fact that the percentage changes in the combined tax change tend to be relatively large at fairly modest income cohorts (for example \$15,000 - \$50,000 FAGI) and at the fairly high income cohorts (\$200,000 and up), while incomes between those cohort groups tend to have smaller percentage tax changes. However, also note that the modest income cohorts referenced here comprise over 50% of all filer households while the higher income cohorts referenced here comprise about 4% of filer households. Overall, the proposed combined tax changes appear to only slightly change the distribution of the combined state income and sales tax liability, and this is illustrated later in the report.

### ESTIMATED DISTRIBUTION OF COMBINED STATE INCOME & SALES TAX LIABILITY INCOME TAX FILINGS AS PROXY FOR HOUSEHOLDS

Cumu. Return %	Federal Gross	Adjusted Income	Number Returns	Average FAGI	Combined Curr Income & Sales Tax	Comb Effec Tax Rate	Proposed Curr Income & Sales Tax	Prop Effec Tax Rate	\$ Change in Combined Tax	% Change in Combined Tax
3.7%	\$0	\$5,000	64,487	\$2,618	\$127	4.8%	\$155	5.9%	\$29	18.5%
8.7%	\$5,000	\$10,000	86,862	\$7,618	\$195	2.6%	\$204	2.7%	\$9	4.4%
16.1%	\$10,000	\$15,000	128,037	\$12,520	\$301	2.4%	\$269	2.1%	-\$32	-12.0%
24.0%	\$15,000	\$20,000	136,895	\$17,408	\$469	2.7%	\$381	2.2%	-\$88	-23.2%
30.9%	\$20,000	\$25,000	120,464	\$22,399	\$624	2.8%	\$456	2.0%	-\$168	-36.7%
37.3%	\$25,000	\$30,000	109,568	\$27,462	\$786	2.9%	\$562	2.0%	-\$224	-39.9%
47.9%	\$30,000	\$40,000	183,891	\$34,763	\$1,018	2.9%	\$776	2.2%	\$242	-31.2%
56.1%	\$40,000	\$50,000	143,645	\$44,820	\$1,343	3.0%	\$1,078	2.4%	-\$266	-24.6%
62.8%	\$50,000	\$60,000	116,250	\$54,797	\$1,690	3.1%	\$1,388	2.5%	-\$302	-21.8%
68.2%	\$60,000	\$70,000	92,986	\$64,810	\$2,043	3.2%	\$1,684	2.6%	-\$359	-21.3%
72.6%	\$70,000	\$80,000	76,173	\$74,845	\$2,397	3.2%	\$1,991	2.7%	-\$406	-20.4%
76.3%	\$80,000	\$90,000	63,491	\$84,856	\$2,747	3.2%	\$2,301	2.7%	-\$446	-19.4%
79.4%	\$90,000	\$100,000	54,392	\$94,891	\$3,128	3.3%	\$2,643	2.8%	-\$485	-18.3%
84.5%	\$100,000	\$120,000	88,709	\$109,550	\$3,858	3.5%	\$3,400	3.1%	-\$458	-13.5%
88.2%	\$120,000	\$140,000	64,403	\$129,492	\$4,802	3.7%	\$4,246	3.3%	-\$555	-13.1%
90.9%	\$140,000	\$160,000	47,238	\$149,497	\$5,745	3.8%	\$4,999	3.3%	-\$746	-14.9%
92.9%	\$160,000	\$180,000	33,752	\$169,478	\$6,683	3.9%	\$5,734	3.4%	-\$949	-16.6%
94.3%	\$180,000	\$200,000	24,527	\$189,524	\$7,599	4.0%	\$6,440	3.4%	-\$1,158	-18.0%
96.4%	\$200,000	\$250,000	35,948	\$221,760	\$9,067	4.1%	\$7,557	3.4%	-\$1,509	-20.0%
97.4%	\$250,000	\$300,000	17,878	\$272,613	\$11,351	4.2%	\$9,276	3.4%	-\$2,075	-22.4%
98.0%	\$300,000	\$350,000	10,519	\$323,061	\$13,603	4.2%	\$10,955	3.4%	-\$2,648	-24.2%
98.4%	\$350,000	\$400,000	7,097	\$373,511	\$15,863	4.2%	\$12,639	3.4%	-\$3,223	-25.5%
98.7%	\$400,000	\$450,000	4,987	\$423,426	\$18,015	4.3%	\$14,235	3.4%	-\$3,780	-26.6%
98.9%	\$450,000	\$500,000	3,494	\$473,837	\$20,215	4.3%	\$15,873	3.3%	-\$4,342	-27.4%
99.2%	\$500,000	\$600,000	4,839	\$546,326	\$23,393	4.3%	\$18,211	3.3%	-\$5,181	-28.5%
99.4%	\$600,000	\$700,000	3,075	\$646,934	\$27,658	4.3%	\$21,402	3.3%	-\$6,257	-29.2%
99.5%	\$700,000	\$800,000	2,075	\$747,609	\$31,987	4.3%	\$24,578	3.3%	-\$7,409	-30.1%
99.6%	\$800,000	\$900,000	1,508	\$848,790	\$35,967	4.2%	\$27,630	3.3%	-\$8,337	-30.2%
99.6%	\$900,000	\$1,000,000	1,164	\$946,752	\$40,123	4.2%	\$30,688	3.2%	-\$9,435	-30.7%
100.0%	\$1,000,000 plus		6,376	\$2,716,935	\$106,114	3.9%	\$82,392	3.0%	-\$23,723	-28.8%
			1,734,730							

Income Tax: Includes the change to a 3% single rate, expanded standard deductions, eliminated personal exemptions, the doubling of the retirement income deduction, and the eliminations of the net business capital gains deduction and IRC 280C deduction.

Sales Tax: Includes newly taxable digital goods & services, new taxable services (non-digital), and formerly exempt transactions, likely to be paid by individuals and households.

<sup>27</sup> To be fair, it was noted earlier in the report that these low income cohorts can contain households with material gross incomes but with large business losses carried over to their personal state tax returns. These tables average the results of all those situations within each income cohort.

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

#### Combined Tax, Aggregate Results

The table below combines the estimated aggregate liability changes of the personal income tax and general sales tax into a net result, without regard to transition, compliance, or enforcement issues. LDR estimates for the bulk of the income tax change are utilized since the difference with model estimates was essentially immaterial. Model estimates of the possible non-resident and fiduciary return impacts were added since the LDR estimates did not include them. LDR estimates of the sales tax changes were utilized since the model only estimates household sales tax impacts.

Considerable confidence can be placed in the income tax estimates as far as ultimate liability changes are concerned, although the estimates of non-resident and fiduciary are more uncertain. The translation of estimated income tax liability changes into specific receipt amounts in particular fiscal years is considerably more uncertain, and no estimate of that translation was made by LDR or by this report.

Less confidence can be placed in the sales tax estimates, since they rely on reported base values from various private and governmental sources that are not engaging in their data collection and estimation processes to specifically support tax revenue estimating. In addition, a number of these base values had to be inferred from national level estimates. While not an unreasonable approach, the pro-ration methods are an added uncertainty. A material portion of the exempt transactions base value taken from the TEB must also be taken with considerable uncertainty.

With these uncertainties acknowledged, the aggregate net liability change of these estimates is sufficiently large enough that the changes are not likely to be offsetting, resulting in a material reduction in state revenue receipts. Presumably, this net revenue reduction is to be accounted for elsewhere in the broader package of changes being proposed and/or within the state government budgeting process.

#### Aggregate Combined Tax Liability Change

Individual Income Tax <sup>1</sup>	(\$1,204,493,924)	LDR Estimate*
Individual Income Tax <sup>2</sup>	<u>(\$45,000,000)</u>	Model Estimates
Total Potential Income Tax Reduction	(\$1,249,493,924)	
Sales Tax On New Services and Exemptions	<u>\$856,377,965</u>	LDR Estimate* <sup>3</sup>
Net Liability Change	(\$393,115,959)	

<sup>1</sup> Resident returns w/ double retirement deduction

<sup>2</sup> Non-Residents and Fiduciary

<sup>3</sup> Household contribution \$313 million (36%)

\* Provided by LDR as of September 30, 2024

## State Tax Reform, 2024

### Individual Income Tax and General Sales Tax

#### Combined Tax Distribution, Suits Index and Curve

As can be seen in the graph below, the current combined tax distribution is very modestly progressive. Even though the Suits Index absolute value for the regressivity of the sales tax is greater than the Index value for the progressivity of the income tax, the dollar liability of the income tax is greater than that of the sales tax at all income cohorts except the very lowest. Thus, an overall measure of tax distribution, such as the Suits Index, indicates a modestly progressive combined tax.

The combined effect of the tax changes proposed make the distribution of the combined taxes slightly less progressive, as evidenced by a current law Index value of  $S = .0720$  compared to a lower proposed law value of  $S = .0646$ <sup>28</sup>. In contrast, the Palma-Suits Index value actually increases by a small amount<sup>29</sup>, indicating slightly more combined tax being borne by the top 10% of households relative to the bottom 40%.

While there are numerous approximations, assumptions, and uncertainties in any analysis such as presented in this report, such small changes in the metrics of distribution resulting from the large changes proposed to each tax suggests that the changes proposed are not significantly changing the overall distribution of combined tax for individuals and households. Having said that, it must be remembered that this analysis presents a high-level aggregation and summary of for over 1.7 million households which exhibit a wide range of economic circumstances, even within any specific income cohort. Comparisons of the tables and metrics presented here of average household results in any particular income cohort to actual known households must keep those aggregations and uncertainties in mind.

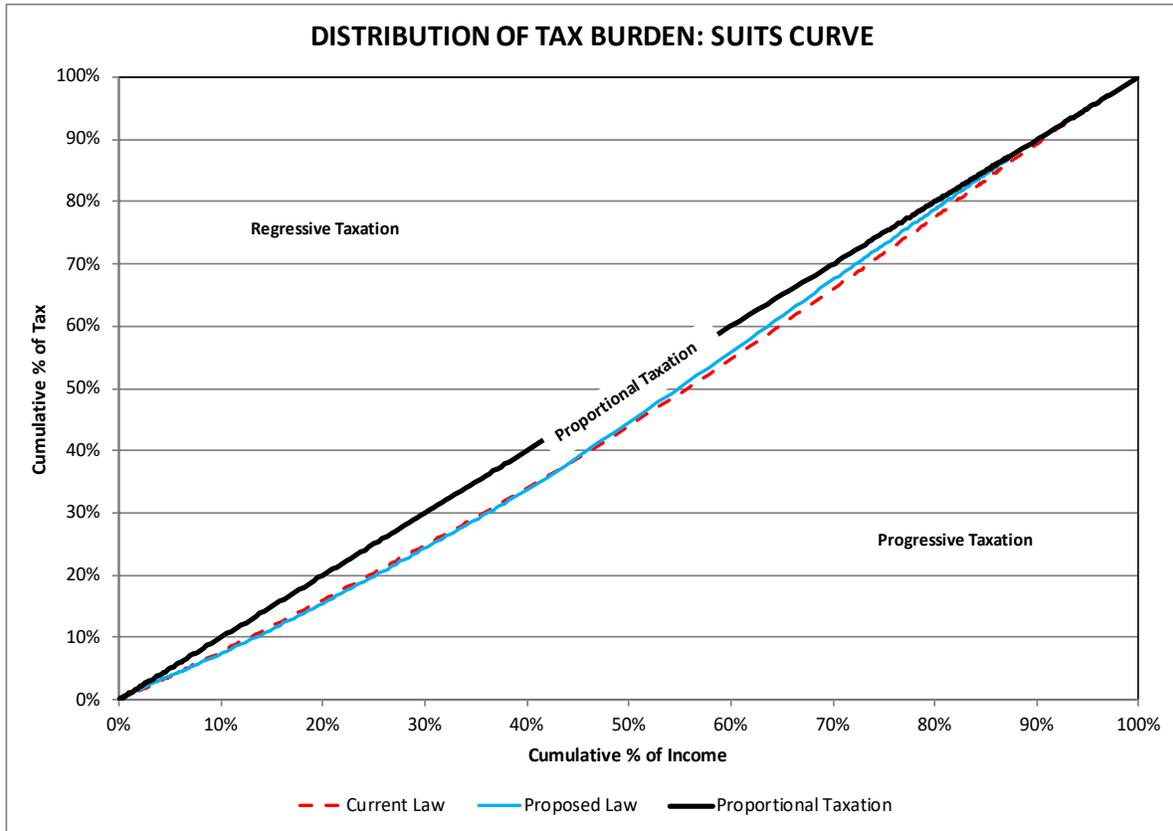
---

<sup>28</sup> This is a 10% change in the Index value, but comes from a fairly small base value of 0.720.

<sup>29</sup> The percentage change in the Palma-Suits Index value is 2%.

# State Tax Reform, 2024

## Individual Income Tax and General Sales Tax



Curr Suits Index (S) = 0.0720  
 Prop Suits Index (S) = 0.0646

S > 0 reflects a progressive tax  
 S < 0 reflects a regressive tax

Current T10/B40 Ratio = 7.77  
 Proposed T10/B40 Ratio = 7.92