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

In the November 2024 special session, the legislature enacted a variety of changes to the state tax system affecting the individual income tax, the sales tax, and corporate income and franchise taxes. Leaders for a Better Louisiana along with the Public Affairs Research Council of Louisiana, have commissioned an analysis of the implications of the changes to the individual income tax and general sales tax on Louisiana households. This analysis will assess the impact of the major changes enacted to those two taxes by various income cohorts of state individuals and households, and is intended to inform policymakers and the public as to the estimated tax liability consequences to households attributable to the enacted changes to state income and sales taxation. This analysis does not address the impact on households or businesses of other provisions enacted during the special session, and does not address the aggregate state fiscal budgetary consequences of the enacted legislation[1]. The tax provisions included in this analysis are those described in publications of the Department of Revenue (LDR)[2].

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[3]. This report primarily examines the distributional effects of the major changes enacted to the state personal income tax and state sales tax 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, and an extension of that model that generates 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[4]. 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, the results reported here can serve as approximations of these liabilities and their distribution across income cohorts.

[1] The aggregate state revenue consequences of all enacted provisions from the November 2024 special session were incorporated into the state revenue forecasts adopted by the Consensus Revenue Estimating Conference at its meeting on May 21, 2025.
[2] Especially The 2024 Third Extraordinary Session Legislative Summaries (2024LS-LS), and Revenue Information Bulletin No. 25-012.
[3] The individual income tax and sales tax combined made up just over 57% of state government's tax collections in the fiscal year ending June 2024, according to actual collections reported to the State's Consensus Revenue Estimating Conference.
[4] The microsimulation model is processing tax year 2022 return information provided by the state Department of Revenue. Tax year 2022 data was the latest most complete year of income tax filing data, inclusive of returns filed under extension, when an earlier report was generated on the proposed tax law changes prior to completion of the November 2024 special session. This later report on actual changes enacted utilizes that same 2022 data to maintain consistency in the two reports' estimates.

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

This report will describe major changes to the income tax and sales tax that were enacted during the recent special session held in November 2024 and provide estimates of the distributional effects of those changes across different income cohorts. Other metrics describing the distributional effects of the changes are also provided.

Individual Income Tax, Major Enacted Provisions

Effective with tax year 2025[5], a single 3% tax rate will be applicable to all taxable income, resulting in a lower marginal tax rate on the current middle and top tiers of tax filer income. The standard deduction is also increased, effectively reducing taxable income for all taxpayers and eliminating the tax entirely on the current bottom tier of tax filer income. In addition, $1,000 deductions for dependents, age 65 and over filers, and the blind were eliminated, which work to partially offset the reduction in taxable income for taxpayers formerly able to claim those deductions. The new law also doubles the deduction for retirement income for those age 65 or older, reducing taxable income for taxpayers able to claim that deduction. In addition, both the standard deduction and retirement income deduction are indexed to inflation, starting with the 2026 tax year. Also eliminated are the deductions for net capital gains from the sale of a business, and the IRC Section 280C deduction. Finally, new deductions for qualified business depreciation expenses and amortization of qualified research and experimental expenses flowing to personal returns are provided[6]. The major 2024 and new 2025 tax parameters, affecting large segments of individual tax filers, are illustrated in the table below.

Individual Income Tax

2024 Law			2025 Law		
Taxable Income		Tax Rate	Taxable Income		Tax Rate
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		
			CPI Indexing of Standard and Retirement Income Deductions		

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 individual income tax changes indicated above that apply to taxpayers in general: specifically, the 3% single tax rate, the increased standard

[5] For most taxpayers a tax year begins on January 1st of the year.

[6] Also enacted were aggregate dollar caps to the motion picture production tax credit and the historic structures rehabilitation tax credit, as well as new sunsets and repeals of various other credit programs. While primarily business oriented, the tax implications of these new deductions and credit program changes can flow to personal returns.

deduction, and the elimination of the $1,000 personal deductions[7]. The table and charts below illustrate that, on average, all resident filers are likely to see a reduction in their state income tax liability as a result of the these enacted changes. Also of note is the fact that while the absolute dollar amount of tax reduction gets larger as income rises, the percentage of liability reduction tends to be larger at lower incomes[8]. The effect on the overall progressivity of the state income tax is discussed and 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	Adjusted Income	Number Returns	Average FAGI[1]	2024 Effec Tax Rate[2]	2024 Law Tax Liability	2025 Law Tax Liability	Income Tax $ Change	Income Tax % Change	2025 Effec Inc Tax Rate	%Chg in After Tax Inc
3.7%	$0	$5,000	64,487	$2,618	0.0%	$0.47	$0.29	($0.18)	-37.6%	0.0%	0.01%
8.7%	$5,000	$10,000	86,862	$7,618	0.5%	$37	$3	($34)	-92.5%	0.0%	0.45%
16.1%	$10,000	$15,000	128,037	$12,520	0.8%	$100	$14	($86)	-86.0%	0.1%	0.69%
24.0%	$15,000	$20,000	136,895	$17,408	1.3%	$229	$72	($157)	-68.5%	0.4%	0.91%
30.9%	$20,000	$25,000	120,464	$22,399	1.7%	$376	$136	($240)	-63.9%	0.6%	1.09%
37.3%	$25,000	$30,000	109,568	$27,462	1.9%	$522	$222	($301)	-57.5%	0.8%	1.12%
47.9%	$30,000	$40,000	183,891	$34,763	2.1%	$734	$403	($331)	-45.1%	1.2%	0.97%
56.1%	$40,000	$50,000	143,645	$44,820	2.3%	$1,017	$654	($363)	-35.7%	1.5%	0.83%
62.8%	$50,000	$60,000	116,250	$54,797	2.4%	$1,310	$897	($414)	-31.6%	1.6%	0.77%
68.2%	$60,000	$70,000	92,986	$64,810	2.5%	$1,604	$1,118	($486)	-30.3%	1.7%	0.77%
72.6%	$70,000	$80,000	76,173	$74,845	2.5%	$1,900	$1,350	($550)	-29.0%	1.8%	0.75%
76.3%	$80,000	$90,000	63,491	$84,856	2.6%	$2,185	$1,577	($608)	-27.8%	1.9%	0.74%
79.4%	$90,000	$100,000	54,392	$94,891	2.6%	$2,486	$1,821	($664)	-26.7%	1.9%	0.72%
84.5%	$100,000	$120,000	88,709	$109,550	2.7%	$2,978	$2,220	($758)	-25.5%	2.0%	0.71%
88.2%	$120,000	$140,000	64,403	$129,492	2.9%	$3,758	$2,822	($936)	-24.9%	2.2%	0.74%
90.9%	$140,000	$160,000	47,238	$149,497	3.0%	$4,555	$3,388	($1,167)	-25.6%	2.3%	0.80%
92.9%	$160,000	$180,000	33,752	$169,478	3.2%	$5,366	$3,963	($1,403)	-26.1%	2.3%	0.85%
94.3%	$180,000	$200,000	24,527	$189,524	3.3%	$6,184	$4,541	($1,643)	-26.6%	2.4%	0.90%
96.4%	$200,000	$250,000	35,948	$221,760	3.4%	$7,515	$5,480	($2,035)	-27.1%	2.5%	0.95%
97.4%	$250,000	$300,000	17,878	$272,613	3.5%	$9,620	$6,964	($2,657)	-27.6%	2.6%	1.01%
98.0%	$300,000	$350,000	10,519	$323,061	3.6%	$11,719	$8,440	($3,279)	-28.0%	2.6%	1.05%
98.4%	$350,000	$400,000	7,097	$373,511	3.7%	$13,854	$9,944	($3,910)	-28.2%	2.7%	1.09%
98.7%	$400,000	$450,000	4,987	$423,426	3.8%	$15,897	$11,384	($4,512)	-28.4%	2.7%	1.11%
98.9%	$450,000	$500,000	3,494	$473,837	3.8%	$17,970	$12,843	($5,128)	-28.5%	2.7%	1.12%
99.2%	$500,000	$600,000	4,839	$546,326	3.8%	$21,027	$14,994	($6,033)	-28.7%	2.7%	1.15%
99.4%	$600,000	$700,000	3,075	$646,934	3.9%	$25,139	$17,895	($7,244)	-28.8%	2.8%	1.17%
99.5%	$700,000	$800,000	2,075	$747,609	3.9%	$29,302	$20,822	($8,479)	-28.9%	2.8%	1.18%
99.6%	$800,000	$900,000	1,508	$848,790	3.9%	$33,091	$23,484	($9,607)	-29.0%	2.8%	1.18%
99.6%	$900,000	$1,000,000	1,164	$946,752	3.9%	$37,159	$26,356	($10,803)	-29.1%	2.8%	1.19%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	3.8%	$102,095	$72,108	($29,987)	-29.4%	2.7%	1.15%
			1,734,730								

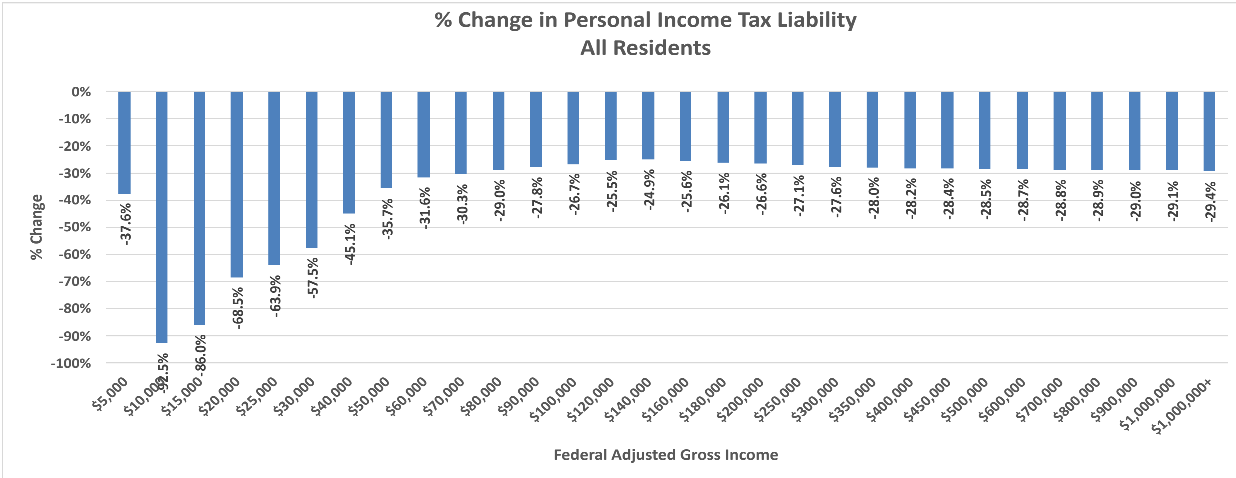
Current Law Taxable (Single / Joint)	Rates	Proposed Law Taxable (Single/Joint)	Rates
$0 - $12,500 / $0 - $25,000	1.85%	$0 - $12,500 / $0 - $25,000	**0%**
$12,500 - $50,000 / $25,000 - $100,000	3.50%	**$12,500+ / $25,000+**	**3%**
$50,000 + / $100,000 +	4.25%		
Standard Deduction and Personal Exemptions		Standard Deduction and Personal Exemptions	
$4,500 / $9,000 / $1,000 Dependent & Other Personal Exs		**$12,500 / $25,000 / $0 Dependent & Other Personal Exs**	

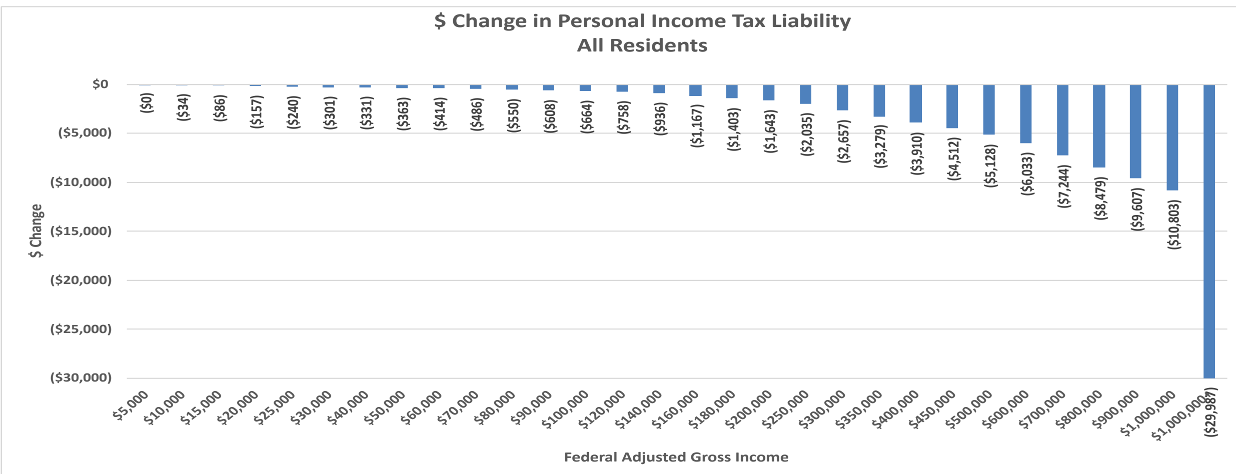
Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers, as well as those with Schedule E adjustments to income and allowable excess federal itemized deductions.
* Tax table liability is prior to any credits (nonrefundable 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 (Effec) 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 absolute dollar change in income tax liability and the percentage change for each income cohort (the second and third columns from the right in the table above) are illustrated in the two charts below.

7 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 (3.2%) reporting zero or negative federal adjusted gross income.
8 This is essentially a small-base issue, where the tax reduction received by lower income filers is a relatively large share of their smaller tax liabilities, while the reduction received by higher income filers is a relatively smaller share of their larger liabilities.

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





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[9]. 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[10].

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

[9] Census Bureau QuickFacts for Louisiana estimate 1,765,264 households in the state during the 2018-2022 period.
[10] 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 federal standard deduction.

and filing circumstances[11]. Comparisons of average filer results in any particular cohort to an actual known filer must keep those variations in mind[12].

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 lowest income cohorts to some extent[13]. At the high-income extreme, the top cohort of the table of FAGI of $1 million or more, the upper range of incomes 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 cohorts of less than $1 million of FAGI. 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 or other evasion has been considered[14].

Again, note that the distributional effect estimated above reflects the change in tax rate, standard deduction, and personal deductions, 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[15] is the most widely claimed of

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[11] Filing statuses include single, married filing separate, joint, qualifying widower, and head-of-household filers 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 particular tax situation.

[12] A close observer of these tables will notice difference in these estimates compared to those in the tables in an earlier report of proposed tax changes provided prior to enactment of actual tax changes. This results from a change made to the calibration error correction made to the analysis since the earlier report that changed the levels of current and proposed law tax liabilities by relatively small amounts. However, the focus of these reports is the difference between these two levels, and those differences are essentially the same in the two reports.

[13] 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 professional net income was reported, and within the 5,880 returns in that FAGI cohort a total of $1.270 billions of negative partnership/S-corporation net income was reported. Total negative partnership/S-corporation net income was reported within FAGI income cohorts up to $25,000.

[14] 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, and are not typically widely utilized across tax filers.

[15] 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. Volume 2 of the Department of Revenue Tax Exemption Budget for Fiscal Year 2020-2021 reports 159,373 returns claiming the annual retirement income exclusion.

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 and charts 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

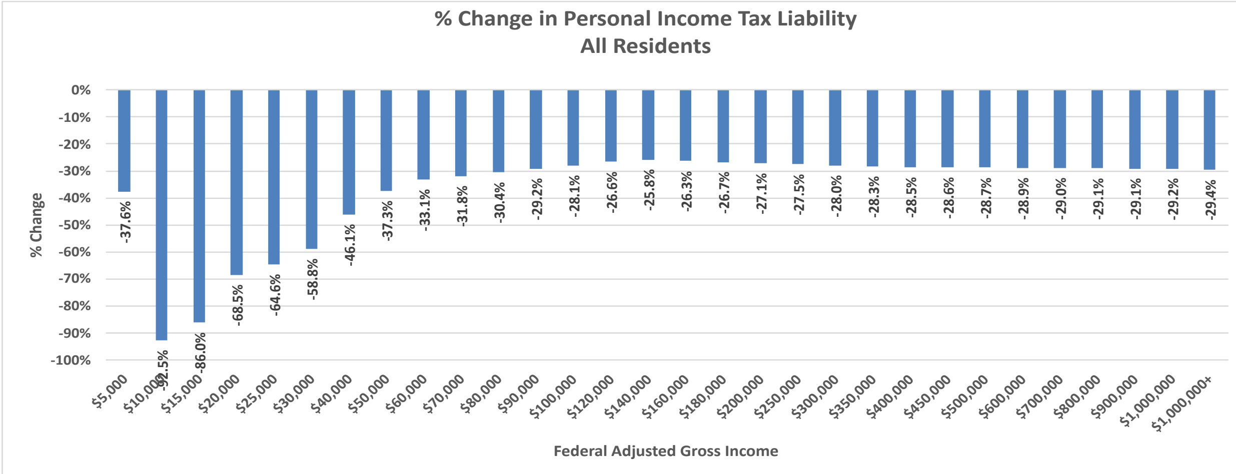
Cumu. Return %	Federal Gross	Adjusted Income	Number Returns	Average FAGI[1]	2024 Effec Tax Rate[2]	2024 Law Tax Liability	2025 Law Tax Liability	Income Tax $ Change	Income Tax % Change	2025 Effec Inc Tax Rate	%Chg in After Tax Inc
3.7%	$0	$5,000	64,487	$2,618	0.0%	$0.47	$0.29	($0.18)	-37.6%	0.0%	0.01%
8.7%	$5,000	$10,000	86,862	$7,618	0.5%	$37	$3	($34)	-92.5%	0.0%	0.45%
16.1%	$10,000	$15,000	128,037	$12,520	0.8%	$100	$14	($86)	-86.0%	0.1%	0.69%
24.0%	$15,000	$20,000	136,895	$17,408	1.3%	$229	$72	($157)	-68.5%	0.4%	0.91%
30.9%	$20,000	$25,000	120,464	$22,399	1.7%	$376	$133	($243)	-64.6%	0.6%	1.10%
37.3%	$25,000	$30,000	109,568	$27,462	1.9%	$522	$215	($307)	-58.8%	0.8%	1.14%
47.9%	$30,000	$40,000	183,891	$34,763	2.1%	$734	$396	($338)	-46.1%	1.1%	0.99%
56.1%	$40,000	$50,000	143,645	$44,820	2.3%	$1,017	$638	($379)	-37.3%	1.4%	0.87%
62.8%	$50,000	$60,000	116,250	$54,797	2.4%	$1,310	$876	($434)	-33.1%	1.6%	0.81%
68.2%	$60,000	$70,000	92,986	$64,810	2.5%	$1,604	$1,094	($511)	-31.8%	1.7%	0.81%
72.6%	$70,000	$80,000	76,173	$74,845	2.5%	$1,900	$1,322	($578)	-30.4%	1.8%	0.79%
76.3%	$80,000	$90,000	63,491	$84,856	2.6%	$2,185	$1,546	($639)	-29.2%	1.8%	0.77%
79.4%	$90,000	$100,000	54,392	$94,891	2.6%	$2,486	$1,788	($698)	-28.1%	1.9%	0.76%
84.5%	$100,000	$120,000	88,709	$109,550	2.7%	$2,978	$2,186	($792)	-26.6%	2.0%	0.74%
88.2%	$120,000	$140,000	64,403	$129,492	2.9%	$3,758	$2,789	($969)	-25.8%	2.2%	0.77%
90.9%	$140,000	$160,000	47,238	$149,497	3.0%	$4,555	$3,357	($1,198)	-26.3%	2.2%	0.83%
92.9%	$160,000	$180,000	33,752	$169,478	3.2%	$5,366	$3,931	($1,435)	-26.7%	2.3%	0.87%
94.3%	$180,000	$200,000	24,527	$189,524	3.3%	$6,184	$4,510	($1,674)	-27.1%	2.4%	0.91%
96.4%	$200,000	$250,000	35,948	$221,760	3.4%	$7,515	$5,447	($2,068)	-27.5%	2.5%	0.97%
97.4%	$250,000	$300,000	17,878	$272,613	3.5%	$9,620	$6,929	($2,691)	-28.0%	2.5%	1.02%
98.0%	$300,000	$350,000	10,519	$323,061	3.6%	$11,719	$8,402	($3,318)	-28.3%	2.6%	1.07%
98.4%	$350,000	$400,000	7,097	$373,511	3.7%	$13,854	$9,906	($3,948)	-28.5%	2.7%	1.10%
98.7%	$400,000	$450,000	4,987	$423,426	3.8%	$15,897	$11,345	($4,552)	-28.6%	2.7%	1.12%
98.9%	$450,000	$500,000	3,494	$473,837	3.8%	$17,970	$12,804	($5,166)	-28.7%	2.7%	1.13%
99.2%	$500,000	$600,000	4,839	$546,326	3.8%	$21,027	$14,958	($6,069)	-28.9%	2.7%	1.16%
99.4%	$600,000	$700,000	3,075	$646,934	3.9%	$25,139	$17,860	($7,279)	-29.0%	2.8%	1.17%
99.5%	$700,000	$800,000	2,075	$747,609	3.9%	$29,302	$20,785	($8,517)	-29.1%	2.8%	1.19%
99.6%	$800,000	$900,000	1,508	$848,790	3.9%	$33,091	$23,448	($9,643)	-29.1%	2.8%	1.18%
99.6%	$900,000	$1,000,000	1,164	$946,752	3.9%	$37,159	$26,320	($10,839)	-29.2%	2.8%	1.19%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	3.8%	$102,095	$72,074	($30,021)	-29.4%	2.7%	1.15%
			1,734,730								

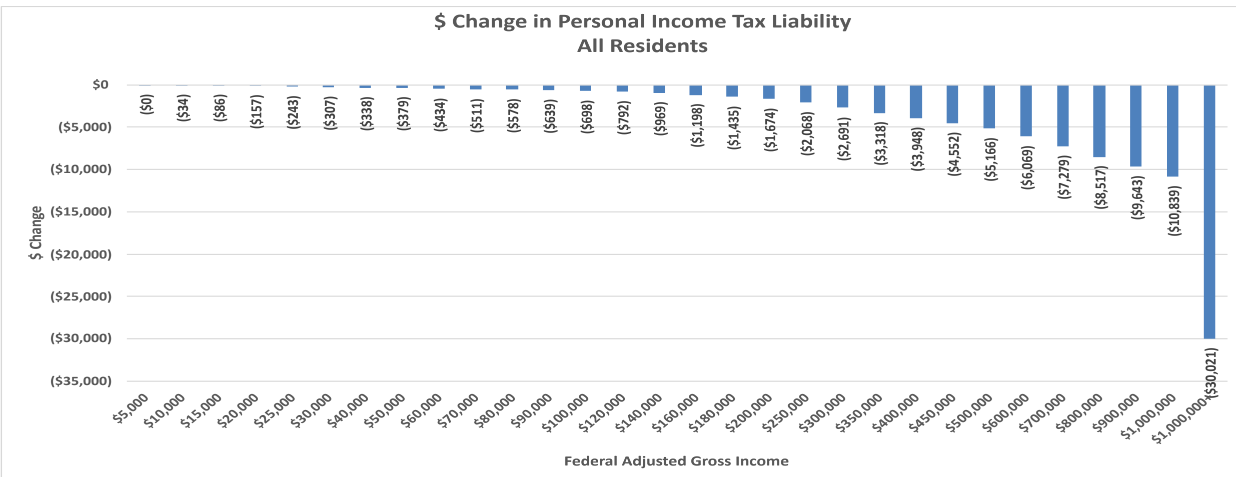
Current Law Taxable (Single / Joint)	Rates	Proposed Law Taxable (Single/Joint)	Rates
$0 - $12,500 / $0 - $25,000	1.85%	$0 - $12,500 / $0 - $25,000	**0%**
$12,500 - $50,000 / $25,000 - $100,000	3.50%	**$12,500+ / $25,000+**	**3%**
$50,000 + / $100,000 +	4.25%		
Standard Deduction and Personal Exemptions		Standard Deduction and Personal Exemptions	
$4,500 / $9,000 / $1,000 Dependent & Other Personal Exs		**$12,500 / $25,000 / $0 Dependent & Other Personal Exs**	
$6,000 Retirement Income Deduction		**$12,000 Retirement Income Deduction**	

Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers, as well as those with Schedule E adjustments to income and allowable excess federal itemized deductions.
* 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 (Effec) 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 absolute dollar change in income tax liability and the percentage change for each income cohort (the second and third columns from the right in the table above) are illustrated in the two charts below.

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





The elimination of the net business capital gain deduction[16] and the IRC 280C Expense deduction[17] are concentrated in fewer and higher income cohorts, and are incorporated together into the distributional table and accompanying summary charts below[18]. The table reflects the fact that not until FAGI reaches at least $70,000 does the elimination of the net business capital gain deduction change the average effect of 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 average effect is only $2. Material effects on average returns 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

[16] 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.

[17] 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 eligible expense to reduce the federal deduction for the expense by the dollar amount of the credit claimed.

[18] Volume 2 of the Department of Revenue Tax Exemption Budget for Fiscal Year 2020-2021 reports only 1,350 returns claiming the net capital gains deduction, and only 687 claiming the IRC 280C expense deduction.

more significantly affected, but do illustrate that a relatively small number of taxpayers are affected in most income cohorts. The elimination of the net business capital gains deduction has its most significant effects on taxpayers in the top 1% - 2% of incomes.

The elimination of the IRC 280C Expense deduction has a relatively small effect on taxpayers on average as evidenced by 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 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

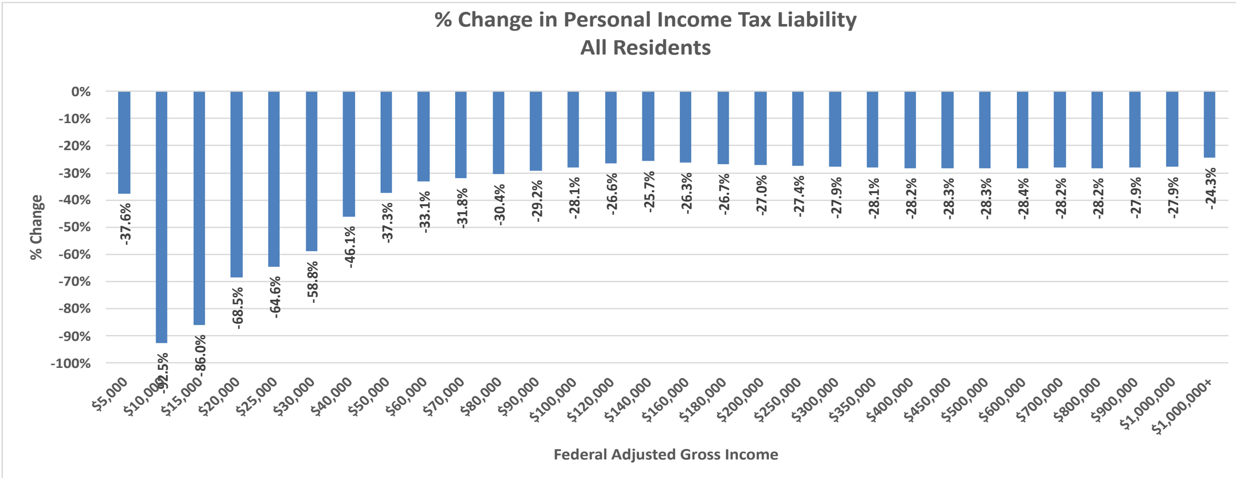
Cumu. Return %	Federal Gross	Adjusted Income	Number Returns	Average FAGI[1]	2024 Effec Tax Rate[2]	2024 Law Tax Liability	2025 Law Tax Liability	Income Tax $ Change	Income Tax % Change	2025 Effec Inc Tax Rate	%Chg in After Tax Inc
3.7%	$0	$5,000	64,487	$2,618	0.0%	$0.47	$0.29	($0.18)	-37.6%	0.0%	0.01%
8.7%	$5,000	$10,000	86,862	$7,618	0.5%	$37	$3	($34)	-92.5%	0.0%	0.45%
16.1%	$10,000	$15,000	128,037	$12,520	0.8%	$100	$14	($86)	-86.0%	0.1%	0.69%
24.0%	$15,000	$20,000	136,895	$17,408	1.3%	$229	$72	($157)	-68.5%	0.4%	0.91%
30.9%	$20,000	$25,000	120,464	$22,399	1.7%	$376	$133	($243)	-64.6%	0.6%	1.10%
37.3%	$25,000	$30,000	109,568	$27,462	1.9%	$522	$215	($307)	-58.8%	0.8%	1.14%
47.9%	$30,000	$40,000	183,891	$34,763	2.1%	$734	$396	($338)	-46.1%	1.1%	0.99%
56.1%	$40,000	$50,000	143,645	$44,820	2.3%	$1,017	$638	($379)	-37.3%	1.4%	0.87%
62.8%	$50,000	$60,000	116,250	$54,797	2.4%	$1,310	$876	($434)	-33.1%	1.6%	0.81%
68.2%	$60,000	$70,000	92,986	$64,810	2.5%	$1,604	$1,094	($511)	-31.8%	1.7%	0.81%
72.6%	$70,000	$80,000	76,173	$74,845	2.5%	$1,900	$1,322	($577)	-30.4%	1.8%	0.79%
76.3%	$80,000	$90,000	63,491	$84,856	2.6%	$2,185	$1,547	($638)	-29.2%	1.8%	0.77%
79.4%	$90,000	$100,000	54,392	$94,891	2.6%	$2,486	$1,788	($697)	-28.1%	1.9%	0.75%
84.5%	$100,000	$120,000	88,709	$109,550	2.7%	$2,978	$2,187	($791)	-26.6%	2.0%	0.74%
88.2%	$120,000	$140,000	64,403	$129,492	2.9%	$3,758	$2,791	($967)	-25.7%	2.2%	0.77%
90.9%	$140,000	$160,000	47,238	$149,497	3.0%	$4,555	$3,359	($1,196)	-26.3%	2.2%	0.83%
92.9%	$160,000	$180,000	33,752	$169,478	3.2%	$5,366	$3,933	($1,433)	-26.7%	2.3%	0.87%
94.3%	$180,000	$200,000	24,527	$189,524	3.3%	$6,184	$4,513	($1,671)	-27.0%	2.4%	0.91%
96.4%	$200,000	$250,000	35,948	$221,760	3.4%	$7,515	$5,453	($2,062)	-27.4%	2.5%	0.96%
97.4%	$250,000	$300,000	17,878	$272,613	3.5%	$9,620	$6,940	($2,680)	-27.9%	2.5%	1.02%
98.0%	$300,000	$350,000	10,519	$323,061	3.6%	$11,719	$8,423	($3,296)	-28.1%	2.6%	1.06%
98.4%	$350,000	$400,000	7,097	$373,511	3.7%	$13,854	$9,945	($3,909)	-28.2%	2.7%	1.09%
98.7%	$400,000	$450,000	4,987	$423,426	3.8%	$15,897	$11,399	($4,497)	-28.3%	2.7%	1.10%
98.9%	$450,000	$500,000	3,494	$473,837	3.8%	$17,970	$12,881	($5,089)	-28.3%	2.7%	1.12%
99.2%	$500,000	$600,000	4,839	$546,326	3.8%	$21,027	$15,064	($5,963)	-28.4%	2.8%	1.14%
99.4%	$600,000	$700,000	3,075	$646,934	3.9%	$25,139	$18,056	($7,083)	-28.2%	2.8%	1.14%
99.5%	$700,000	$800,000	2,075	$747,609	3.9%	$29,302	$21,030	($8,272)	-28.2%	2.8%	1.15%
99.6%	$800,000	$900,000	1,508	$848,790	3.9%	$33,091	$23,858	($9,233)	-27.9%	2.8%	1.13%
99.6%	$900,000	$1,000,000	1,164	$946,752	3.9%	$37,159	$26,801	($10,358)	-27.9%	2.8%	1.14%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	3.8%	$102,095	$77,265	($24,830)	-24.3%	2.8%	0.95%
			1,734,730								

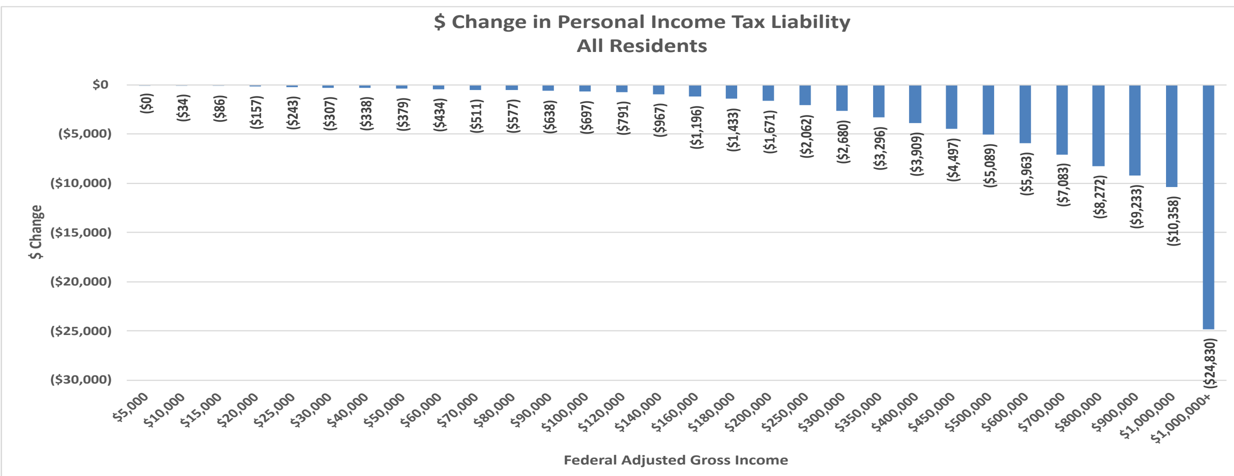
Current Law Taxable (Single / Joint)	Rates	Proposed Law Taxable (Single/Joint)	Rates
$0 - $12,500 / $0 - $25,000	1.85%	$0 - $12,500 / $0 - $25,000	**0%**
$12,500 - $50,000 / $25,000 - $100,000	3.50%	**$12,500+ / $25,000+**	**3%**
$50,000 + / $100,000 +	4.25%		
Standard Deduction and Personal Exemptions		Standard Deduction and Personal Exemptions	
$4,500 / $9,000 / $1,000 Dependent & Other Personal Exs		**$12,500 / $25,000 / $0 Dependent & Other Personal Exs**	
$6,000 Retirement Income Deduction		**$12,000 Retirement Income Deduction**	
Business Sale Capital Gains Deduction Allowed		**Business Sale Capital Gains Deduction Not Allowed**	
IRC 280C Expense Deduction Allowed		**IRC 280C Expense Deduction Not Allowed**	

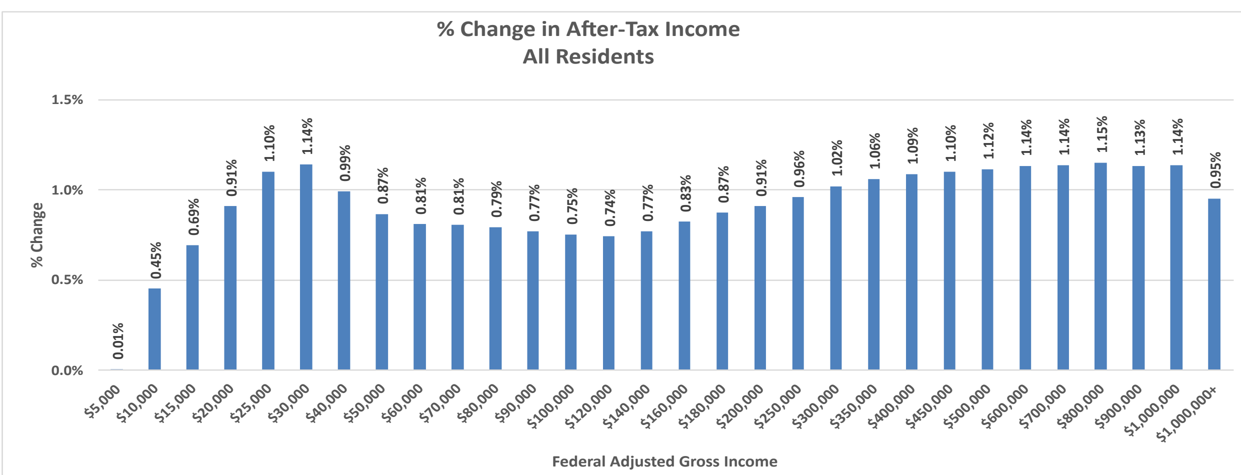
Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers, as well as those with Schedule E adjustments to income and allowable excess federal itemized deductions.
* Tax table liability is prior to any credits (nonrefundable 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 (Effec) 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 absolute dollar change in income tax liability and the percentage change for each income cohort (the third and fourth columns from the right in the table above) are illustrated in the two charts below. In addition, for this all-in income tax scenario, a chart illustrating the resulting percentage changes in after-tax income for each income cohort is also displayed (the far right column in the table above).

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







A 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[19].

Tax Credit Program Constraints and Sunsets

Various other tax credits were constrained or closed for future application. Notable among these changes were reductions in the annual issuance and claims of motion picture production tax credits and rehabilitation of historic structures tax credits, and the establishment of an annual cap on research and development tax credits. In addition, various economic development tax credit incentive programs were sunset[20]. While these programs are typically considered tax credits against corporate tax liabilities, some portion of the total credits claimed for these programs are claimed against the individual income tax. While the effect of these provisions is not modeled in this analysis, over the next few years constraining or eliminating future participation in these programs will work to enhance tax liabilities above where they would otherwise be, assuming these constraints and eliminations are maintained. The degree of individual income tax liability enhancement that can eventually be realized is likely to relatively small since, with few exceptions, the tax costs of these programs tend to be realized against corporate income and franchise taxes rather than the individual income tax[21]. While not necessarily immaterial, the constraining of these various tax credit programs will only very modestly enhance individual income tax receipts, and only over a number of years into the future as program credit claims and participation decline. In addition, numerous expired and underutilized tax credit programs were repealed[22]. Many of these programs have little or no utilization and, while their absence can only work to enhance tax liabilities, to the extent they might be utilized, the tax effects of their repeal is likely to be minor.

Bonus Depreciation

A bonus depreciation deduction (full or 100% expensing) for qualified property or qualified improvement property as well as a bonus amortization deduction for research and experimental expenditures was also provided in the special session. The deduction allows a business to recover

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[19] Tax year 2021 federal income tax data for Louisiana filers indicates that over $16 billions 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.

[20] The annual issuance of motion picture production tax credits was reduced from $150 million to $125 million, with the annual cap for claiming these credits reduced from $180 million to $125 million, along with a prohibition on the rollover of any unused portion of the claim cap. The annual cap for Part II historic rehabilitation credits was reduced from $125 million to $85 million. An annual cap of $12 million was established for research and development tax credits. No new credit applications can be accepted for various programs including the La Quality Jobs Program, the Angel Investor Program, the Sound Recording Program, the Enterprise Zones Program, the La Work Opportunity Credit, the Industrial Tax Equalization Program, Exemptions for Manufacturing Establishments, and the Modernization Tax Credit.

[21] A notable exception to this is the historic rehabilitation credits where, according to the La Revenue Dept. Tax Exemption Budget, nearly two-thirds of the tax effect on returns received during FY2022-23 was reported on individual returns; $53.8 millions of a total effect of $80.984 millions.

[22] Revenue Information Bulletin No. 25-012 lists forty-eight credit programs that were repealed.

the full cost of property or expenditures in the taxable year the property is placed in service or the taxable year the expenditures were incurred, rather than depreciating the property over the course of its estimated useful life or amortization period. Qualified property and qualified improvement property are defined by Sections 168(k) and 168(e)(6) of the Internal Revenue Code, and research and experimental expenditures are defined by Section 174 of the Internal Revenue Code, all as in effect on January 1, 2024. Neither the bonus depreciation or amortization deduction may be used to duplicate any depreciation allowable on a taxpayer's federal income tax return for the taxable year.

These provisions will work to reduce tax liabilities more than would occur under a scheduled depreciation or amortization deduction. While this deduction is typically associated with business or corporate tax returns, and was provided for the corporate income tax as well, it was also explicitly added for the individual income tax since business tax activity can flow through to individual returns via entities such as sole proprietorships, partnerships, and limited liability corporations.

The federal provisions referred to in the new state provisions regarding qualified property and expenditures are quite complicated, and little can be said definitively regarding the magnitude of the tax effect of this new deduction, with respect to either corporate taxes or individual taxes. While the magnitude of effect of these provisions is unknown, and the prohibition against duplication of depreciation on federal returns may ameliorate the state effects of this new deduction, it should be realized that Louisiana has substantial concentrations of capital intensive industries. The tax liability reductions of bonus depreciation could be substantial

Consumer Price Indexing of Standard Deduction

Beginning with the 2026 tax year, the increased standard deduction will be indexed to the percentage change in the Consumer Price Index (CPI) occurring in the previous calendar year. The table below provides an estimate of the change in tax liabilities resulting from a 3% CPI inflation rate applied to the standard deduction[23]. Note that since the indexing provisions start one year after the start of the other provisions analyzed in this report, the table below utilizes "current" law as the provisions recently passed in the November 2024 special session, and utilizes "proposed" law as simply a 3% higher standard deduction than established in current law[24]. This allows the effect of the CPI indexing to the standard deduction affecting all taxpayers to be more clearly displayed.

As can be seen in the table below, a 3% indexing of the standard deduction would result in modest tax reductions for individual taxpayers and households. Total tax liabilities of resident

[23] As of May 30, 2025, the University of Michigan Survey of Consumers indicates median expected consumer price inflation of approximately 6.5% over the next twelve months. However, other estimates of inflation expectations, including market-based and modeled, for broader price concepts than consumer inflation suggest approximately 2.5% inflation, which is roughly consistent with 3% consumer inflation.

[24] The current law standard deduction is $12,000 for single and married-filing joint filers, and $25,000 for joint, qualified surviving spouse and head-of-household filers. A 3% CPI indexing increases those deductions to $12,875 and $25,750, respectively.

filers, and ultimately tax revenue to state government, would be approximately $22.3 million lower than without this indexing. As a general rule of thumb, based on tax year 2022 returns, each 1% of CPI indexing would result in a maximum liability reduction of approximately $7 per return, and approximately $7.4 millions of lower aggregate liabilities.

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY
ALL RESIDENT FILERS
TAX TABLE LIABILITY BASIS*
TAX YEAR 2022 TAX RETURNS
3% CPI Indexing of Standard Deduction

Cumu. Return %	Federal Gross	Adjusted Income	Number Returns	Average FAGI[1]	Curr Effec Tax Rate[2]	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	0.5%	$37	$37	$0	0.0%	0.5%
16.1%	$10,000	$15,000	128,037	$12,520	0.8%	$100	$98	($3)	-2.7%	0.8%
24.0%	$15,000	$20,000	136,895	$17,408	1.3%	$229	$224	($5)	-2.1%	1.3%
30.9%	$20,000	$25,000	120,464	$22,399	1.7%	$376	$372	($5)	-1.2%	1.7%
37.3%	$25,000	$30,000	109,568	$27,462	1.9%	$522	$510	($13)	-2.4%	1.9%
47.9%	$30,000	$40,000	183,891	$34,763	2.1%	$734	$720	($14)	-2.0%	2.1%
56.1%	$40,000	$50,000	143,645	$44,820	2.3%	$1,017	$1,002	($15)	-1.5%	2.2%
62.8%	$50,000	$60,000	116,250	$54,797	2.4%	$1,310	$1,294	($17)	-1.3%	2.4%
68.2%	$60,000	$70,000	92,986	$64,810	2.5%	$1,604	$1,587	($17)	-1.1%	2.4%
72.6%	$70,000	$80,000	76,173	$74,845	2.5%	$1,900	$1,882	($18)	-0.9%	2.5%
76.3%	$80,000	$90,000	63,491	$84,856	2.6%	$2,185	$2,166	($19)	-0.9%	2.6%
79.4%	$90,000	$100,000	54,392	$94,891	2.6%	$2,486	$2,466	($19)	-0.8%	2.6%
84.5%	$100,000	$120,000	88,709	$109,550	2.7%	$2,978	$2,958	($20)	-0.7%	2.7%
88.2%	$120,000	$140,000	64,403	$129,492	2.9%	$3,758	$3,737	($21)	-0.5%	2.9%
90.9%	$140,000	$160,000	47,238	$149,497	3.0%	$4,555	$4,534	($21)	-0.5%	3.0%
92.9%	$160,000	$180,000	33,752	$169,478	3.2%	$5,366	$5,345	($21)	-0.4%	3.2%
94.3%	$180,000	$200,000	24,527	$189,524	3.3%	$6,184	$6,163	($21)	-0.3%	3.3%
96.4%	$200,000	$250,000	35,948	$221,760	3.4%	$7,515	$7,494	($21)	-0.3%	3.4%
97.4%	$250,000	$300,000	17,878	$272,613	3.5%	$9,620	$9,599	($21)	-0.2%	3.5%
98.0%	$300,000	$350,000	10,519	$323,061	3.6%	$11,719	$11,698	($21)	-0.2%	3.6%
98.4%	$350,000	$400,000	7,097	$373,511	3.7%	$13,854	$13,833	($21)	-0.2%	3.7%
98.7%	$400,000	$450,000	4,987	$423,426	3.8%	$15,897	$15,875	($21)	-0.1%	3.7%
98.9%	$450,000	$500,000	3,494	$473,837	3.8%	$17,970	$17,949	($21)	-0.1%	3.8%
99.2%	$500,000	$600,000	4,839	$546,326	3.8%	$21,027	$21,006	($21)	-0.1%	3.8%
99.4%	$600,000	$700,000	3,075	$646,934	3.9%	$25,139	$25,118	($21)	-0.1%	3.9%
99.5%	$700,000	$800,000	2,075	$747,609	3.9%	$29,302	$29,281	($21)	-0.1%	3.9%
99.6%	$800,000	$900,000	1,508	$848,790	3.9%	$33,091	$33,070	($21)	-0.1%	3.9%
99.6%	$900,000	$1,000,000	1,164	$946,752	3.9%	$37,159	$37,138	($21)	-0.1%	3.9%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	3.8%	$102,095	$102,074	($21)	-0.02%	3.8%
			1,734,730							

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

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

Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers, as well as those with Schedule E adjustments to income and allowable excess federal itemized deductions.
** 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.

It should be noted here that while this is a modest tax reduction for any particular year compared to the case without CPI indexing, this reduction will accumulate each year as CPI inflation occurs. This will work to diminish the growth in the tax as incomes grow in the state. Over a five-year period, and assuming 3% CPI indexing each year, aggregate state tax liabilities will be some $111 million lower than they would otherwise be without this indexing.

Consumer Price Indexing of Annual Retirement Income Deduction

Those tax filers claiming the annual retirement income deduction will also benefit from CPI indexing of that deduction in addition to indexing of the standard deduction. While the microsimulation model can not isolate returns that only claim the retirement income deduction, it can process returns filed only by tax filers age 65 or older. Since, the retirement income deduction is only available to filers age 65 or older, those returns are utilized as proxies for returns claiming the retirement income deduction.

The table below provides rough estimates of the change in tax liabilities resulting from a 3% CPI inflation index applied to the annual retirement income deduction[25]. Note that since the indexing provisions start one year after the start of the other provisions analyzed in this report, the table below also utilizes "current" law as recently passed in the November 2024 special session, and utilizes "proposed" law as simply a 3% higher retirement income deduction than established in current law[26]. Also note that the table below does not include CPI indexing of the standard deduction. This allows the effect of only the CPI indexing of the retirement income deduction on tax liabilities to be more clearly displayed.

As can be seen in the table, a 3% indexing of the retirement income deduction would result in very modest tax reductions for affected individual taxpayers on average. It should be emphasized again that these estimates for claimants of the retirement income deduction, proxied by all age 65 or older filers, is only a rough estimate of the tax reduction resulting from CPI indexing of the retirement income deduction. Since the number of age 65 or older returns is greater than the number that would actually receive the indexing benefit, the actual tax reduction to retirement income deduction claimants in each income cohort is greater than estimated here. However, given the very modest tax reduction estimates in the table, it is reasonable to assume that the annual tax reductions from this provision for these taxpayers is still fairly small. Even if these estimates were doubled or tripled, the tax reductions per return would still be very modest.

Total tax liabilities of affected resident filers, and ultimately tax revenue to state government, would also be modestly lower than without this indexing; approximately $1.3 million associated with these estimates (or approximately $427,000 per one percentage point of indexing). Obviously, if doubled or tripled, the aggregate effect is that much greater.

[25] Utilizing returns from age 65 or older tax filers as proxies for annual retirement income claimants provides only a rough estimate of the effect of CPI indexing on the retirement income deduction. While some 86% of total resident 65 or older filers file Schedule E, where the retirement income deduction is reported, only about 50% of those Schedule E returns claim any retirement income deduction.

[26] The current law retirement income deduction is $12,000 for persons 65 years or older. As with the law prior to the changes made by the November 2024 special session, it is assumed that taxpayers that are married filing jointly and are both age 65 or older can each exclude up to $12,000 of annual retirement income. If only one spouse has retirement income, the exclusion is limited to $12,000. A 3% CPI indexing increases the deduction amount to $12,875.

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY
RESIDENT 65 OR OLDER FILERS ONLY
TAX TABLE LIABILITY BASIS*
TAX YEAR 2022 TAX RETURNS
3% CPI Indexing of Retirement Income Deduction

Cumu. Return %	Federal Adjusted Gross Income		Number Returns	Average FAGI[1]	Curr Effec Tax Rate[2]	Curr Law Tax Liability	Prop Law Tax Liability	Income Tax $ Change	Income Tax % Change	Prop Effec Inc Tax Rate
3.9%	$0	$5,000	12,836	$2,341	0.0%	$0	$0	$0	0.0%	0.0%
8.3%	$5,000	$10,000	14,504	$7,575	0.1%	$9	$9	$0	0.0%	0.1%
13.8%	$10,000	$15,000	18,178	$12,559	0.3%	$37	$37	$0	0.0%	0.3%
19.5%	$15,000	$20,000	18,973	$17,432	0.5%	$92	$92	$0	0.0%	0.5%
24.8%	$20,000	$25,000	17,349	$22,473	0.7%	$148	$148	$0	0.0%	0.7%
29.7%	$25,000	$30,000	16,278	$27,502	0.7%	$202	$202	$0	0.0%	0.7%
38.6%	$30,000	$40,000	29,170	$34,883	0.8%	$283	$283	$0	0.0%	0.8%
46.3%	$40,000	$50,000	25,550	$44,903	0.9%	$409	$407	($2)	-0.5%	0.9%
53.3%	$50,000	$60,000	23,050	$54,915	1.0%	$565	$562	($3)	-0.5%	1.0%
59.6%	$60,000	$70,000	20,830	$64,899	1.2%	$749	$745	($5)	-0.6%	1.1%
65.1%	$70,000	$80,000	18,269	$74,866	1.3%	$953	$946	($7)	-0.7%	1.3%
70.0%	$80,000	$90,000	15,892	$84,882	1.4%	$1,155	$1,148	($7)	-0.6%	1.4%
74.2%	$90,000	$100,000	13,896	$94,877	1.5%	$1,410	$1,402	($8)	-0.6%	1.5%
80.9%	$100,000	$120,000	22,048	$109,374	1.6%	$1,802	$1,794	($8)	-0.5%	1.6%
85.3%	$120,000	$140,000	14,661	$129,432	1.9%	$2,447	$2,439	($9)	-0.3%	1.9%
88.4%	$140,000	$160,000	10,348	$149,432	2.1%	$3,171	$3,162	($9)	-0.3%	2.1%
90.7%	$160,000	$180,000	7,334	$169,476	2.3%	$3,961	$3,952	($9)	-0.2%	2.3%
92.3%	$180,000	$200,000	5,290	$189,403	2.5%	$4,774	$4,765	($9)	-0.2%	2.5%
94.7%	$200,000	$250,000	8,184	$222,310	2.8%	$6,167	$6,158	($9)	-0.1%	2.8%
96.1%	$250,000	$300,000	4,349	$273,013	3.1%	$8,349	$8,341	($9)	-0.1%	3.1%
96.9%	$300,000	$350,000	2,836	$323,352	3.2%	$10,509	$10,500	($9)	-0.1%	3.2%
97.5%	$350,000	$400,000	1,901	$373,776	3.4%	$12,705	$12,696	($8)	-0.1%	3.4%
97.9%	$400,000	$450,000	1,425	$423,149	3.5%	$14,710	$14,702	($8)	-0.1%	3.5%
98.2%	$450,000	$500,000	1,005	$473,777	3.5%	$16,771	$16,763	($8)	-0.05%	3.5%
98.7%	$500,000	$600,000	1,402	$546,213	3.6%	$19,886	$19,879	($7)	-0.04%	3.6%
98.9%	$600,000	$700,000	909	$646,720	3.7%	$24,069	$24,061	($7)	-0.03%	3.7%
99.1%	$700,000	$800,000	617	$747,917	3.8%	$28,256	$28,248	($8)	-0.03%	3.8%
99.3%	$800,000	$900,000	448	$849,975	3.8%	$31,921	$31,913	($7)	-0.02%	3.8%
99.4%	$900,000	$1,000,000	344	$945,617	3.8%	$36,187	$36,180	($7)	-0.02%	3.8%
100.0%	$1,000,000	$1,000,000+	2,125	$2,857,199	3.7%	$106,919	$106,913	($6)	-0.01%	3.7%
			330,001							

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

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

Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers, as well as those with Schedule E adjustments to income and allowable excess federal itemized deductions.
* 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.

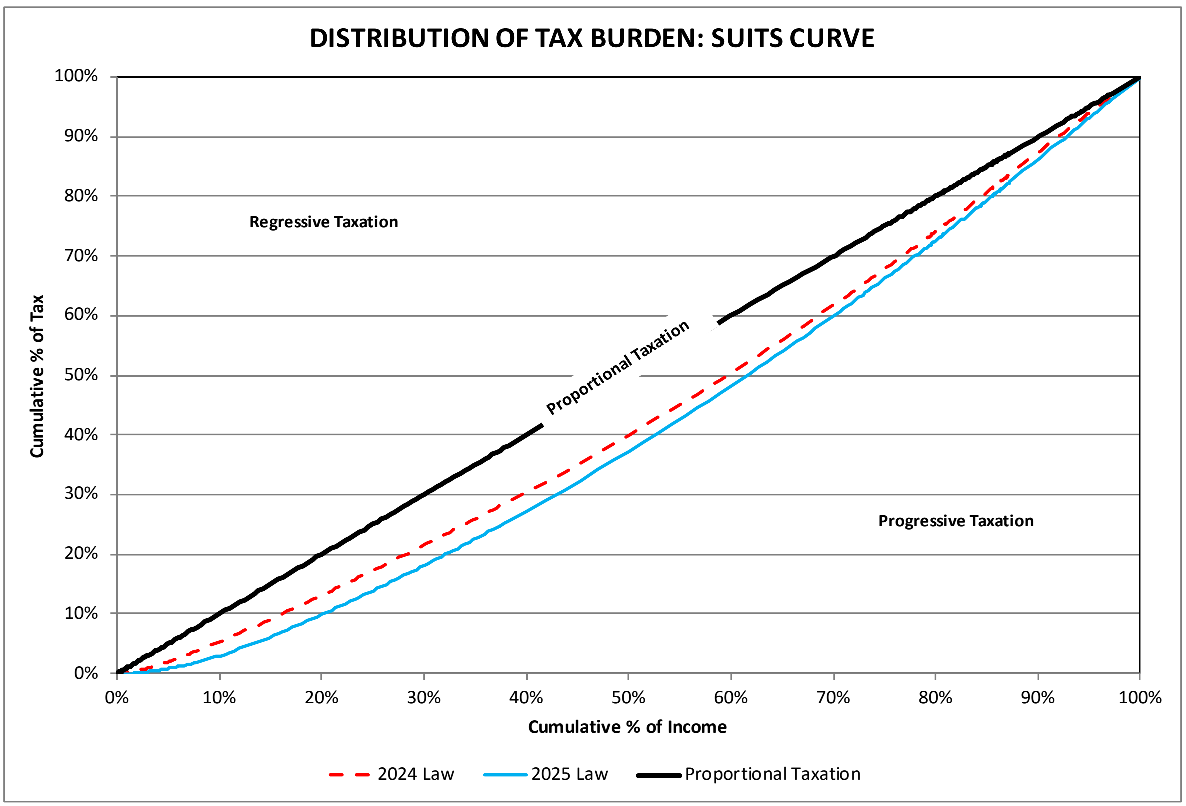
It should be noted here that while this is a modest tax reduction for any particular year compared to the case without CPI indexing, this reduction will accumulate each year as CPI inflation occurs. This will work to diminish the growth in the tax as incomes grow in the state. Over a five-year period, and assuming 3% CPI indexing each year, aggregate state tax liabilities will be some $6.5 million lower than they would otherwise be without this indexing. Obviously, if the effect for affected tax filers is doubled or tripled, the aggregate effect is that much greater

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 2024 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 deduction, eliminated personal deductions, and the doubling of the retirement income deduction. While more narrowly applicable, the net business capital gains deduction and IRC 280C deduction were also included in the Suits Index and Curve below. The CPI indexing of the standard deduction and the retirement income deduction are not included, since analysis of the effect these provisions relies on the current law perspective being that as enacted during the November 2024 special session rather than the law in effect before that session, as analysis of the other provisions relied upon.



2024 Suits Index (S) = 0.1334	S > 0 reflects a progressive tax	2024 T10/B40 Ratio = 12.67
2025 Suits Index (S) = 0.1770	S < 0 reflects a regressive tax	2025 T10/B40 Ratio = 25.42

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

The Suits[27] index is a metric that summarizes the entire distribution of tax liability depicted in the graph above. Prior to the recently enacted tax changes (2024 law in the graph above), the Suits Index (S) = 0.1334 (13.34%), and is the share of area of the bottom-right triangle that lies between the diagonal and the observed 2024 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[28].

As can be seen in the Suits graph, and summarized by the Suits index value, the 2024 state individual income tax law (dashed red) exhibited a modest degree of progressivity. Under the enacted changes (2025 law line in the graph above), the degree of progressivity is still modest but is greater than before the enacted tax changes. The 2025 law line (solid blue) of cumulative tax liability plotted against cumulative FAGI lies to the right of the 2024 law line, and the 2025 Suits Index value is larger at S = 0.1770 (17.70%).

A supplement to the Suits Index, is a metric that this report will refer to as the Palma-Suits Index[29], 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 2024 law income tax liabilities, the Palma-Suits Index = 12.67; the top 10% of filers have an aggregate income tax liability that is nearly thirteen times the aggregate liability of the bottom 40% of filers. Under the enacted changes for 2025 this multiple increases to 25.42; confirming the increased progressivity of the enacted changes, with respect to the personal income tax.

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[27] 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.

[28] 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.

[29] Similar to the 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.

State Tax Reform Enacted, 2024
Individual Income Tax and General Sales 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 52% of the aggregate income tax reduction will accrue to the top 10% income filers (FAGI of approximately $150,000 and up), with 48% accruing to the 90% of filers with lower incomes. The increase in the overall progressivity of the tax is attributable to the fact that lower income taxpayers receive larger percentage reductions in tax liability, even though higher income taxpayers receive substantially larger dollar reductions in tax liability. 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, Major Enacted Provisions

The enacted law increases the state sales tax rate to 5%, from 4.45%[30], and expanded the tax base to include various non-commercial use purchases of digital products and services[31]. Examples of digital products and services to be included as taxable are audio and audiovisual works, books, codes to obtain digital product applications and games, and periodicals and discussion forums, as well as prewritten computer software access, and various information services including newsletters, research publications, subscriptions to genealogical and financial databases, cable television, direct-to-home satellite services, video programing, and satellite digital audio radio services. An additional 5% tax was also levied on telecommunications services, cable television services, direct-to-home satellite services, video programming services, and satellite digital audio radio services[32].

General Sales Tax, Distributional Effects

The table below summarizes the estimated change in state sales tax liability over various income cohorts, attributable to the increase in the tax rate over the entire tax base, as well as the expansion of the tax base to digital products and services, and the additional tax levied on telecommunications and certain digital services. The table illustrates that all resident households are likely to see an increase in their state sales tax liability as a result of these 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; although, the percentage increase in tax rises only very modestly as income increases. This reflects the fact that higher income households tend to spend more income on these services than do lower income households. The effect on the overall regressivity of the state sales tax is discussed and illustrated later in the report.

[30] Act 11 also provided that the state sales tax rate would fall back to 4.75% on January 1, 2030.

[31] 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.

[32] Tax receipts from this additional levy on these particular services is to be distributed to local governments, pending enactment of legislation in the 2025 regular legislative session. Regardless of the disposition of these receipts, purchases of these services are subject to a 10% sales tax rate.

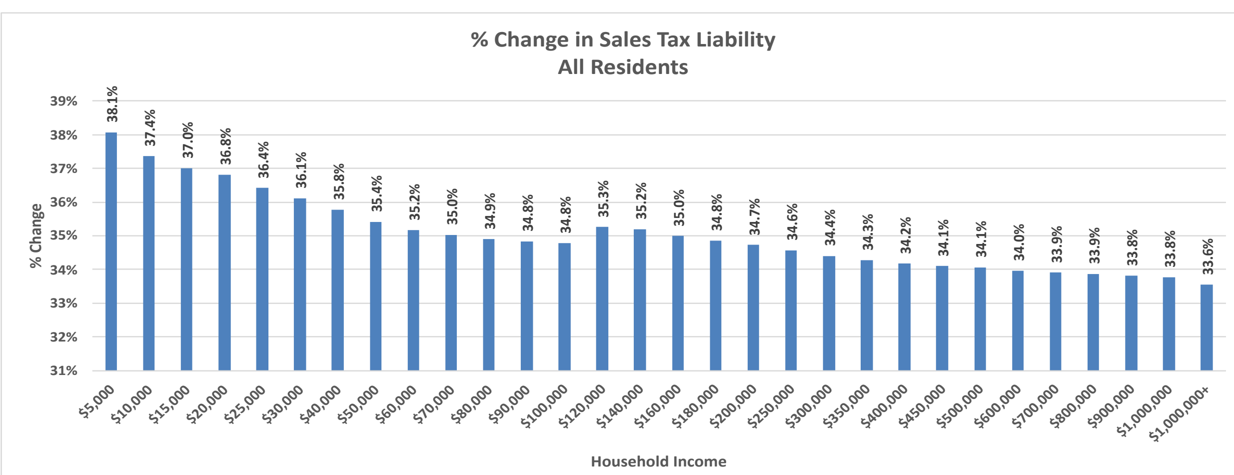
State Tax Reform Enacted, 2024
Individual Income Tax and General Sales Tax

ESTIMATED DISTRIBUTION OF STATE SALES TAX LIABILITY
INCOME TAX FILINGS AS PROXY FOR HOUSEHOLDS
Rate Increase to 5%/10% and Digital Goods & Services Base Expansion

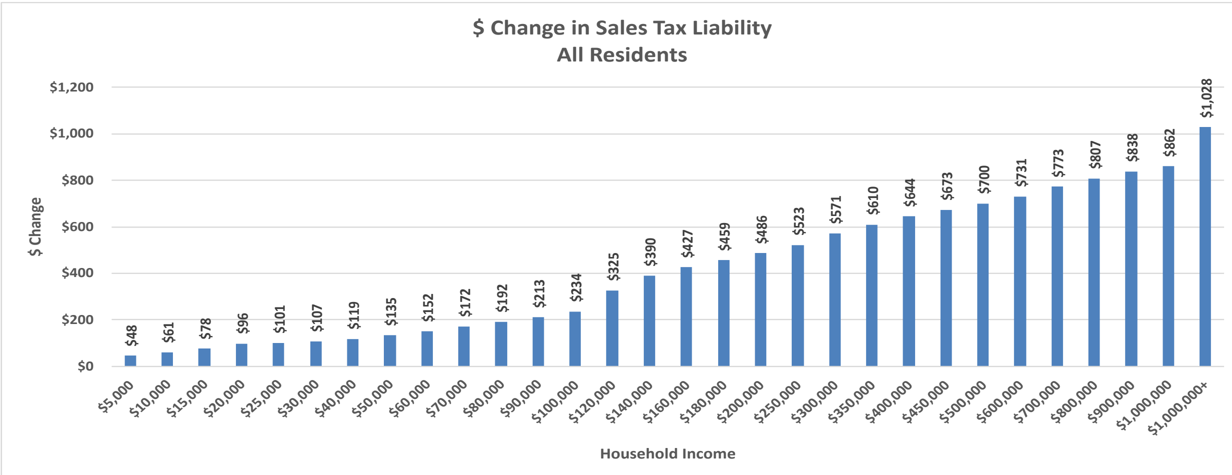
Cumu. Return %	Federal Gross	Adjusted Income	Number Returns/HHs	Average FAGI[1]	2024 Effec Tax Rate[2]	2024 State Sales Tax; 4.45%	2025 State Sales Tax; 5%/10%	Sales Tax $ Change	Sales Tax % Change	2025 Effec Tax Rate[2]	%Chg in After Tax Inc
3.7%	$0	$5,000	64,487	$2,618	4.84%	$127	$175	$48	38%	6.68%	-1.94%
8.7%	$5,000	$10,000	86,862	$7,618	2.15%	$164	$225	$61	37%	2.95%	-0.82%
16.1%	$10,000	$15,000	128,037	$12,520	1.68%	$210	$288	$78	37%	2.30%	-0.63%
24.0%	$15,000	$20,000	136,895	$17,408	1.49%	$260	$356	$96	37%	2.04%	-0.56%
30.9%	$20,000	$25,000	120,464	$22,399	1.23%	$276	$377	$101	36%	1.68%	-0.45%
37.3%	$25,000	$30,000	109,568	$27,462	1.08%	$297	$404	$107	36%	1.47%	-0.39%
47.9%	$30,000	$40,000	183,891	$34,763	0.96%	$333	$452	$119	36%	1.30%	-0.35%
56.1%	$40,000	$50,000	143,645	$44,820	0.85%	$381	$516	$135	35%	1.15%	-0.30%
62.8%	$50,000	$60,000	116,250	$54,797	0.79%	$432	$584	$152	35%	1.07%	-0.28%
68.2%	$60,000	$70,000	92,986	$64,810	0.76%	$490	$662	$172	35%	1.02%	-0.27%
72.6%	$70,000	$80,000	76,173	$74,845	0.74%	$550	$743	$192	35%	0.99%	-0.26%
76.3%	$80,000	$90,000	63,491	$84,856	0.72%	$612	$825	$213	35%	0.97%	-0.25%
79.4%	$90,000	$100,000	54,392	$94,891	0.71%	$673	$907	$234	35%	0.96%	-0.25%
84.5%	$100,000	$120,000	88,709	$109,550	0.84%	$921	$1,245	$325	35%	1.14%	-0.30%
88.2%	$120,000	$140,000	64,403	$129,492	0.86%	$1,109	$1,500	$390	35%	1.16%	-0.30%
90.9%	$140,000	$160,000	47,238	$149,497	0.82%	$1,221	$1,648	$427	35%	1.10%	-0.29%
92.9%	$160,000	$180,000	33,752	$169,478	0.78%	$1,316	$1,775	$459	35%	1.05%	-0.27%
94.3%	$180,000	$200,000	24,527	$189,524	0.74%	$1,399	$1,885	$486	35%	0.99%	-0.26%
96.4%	$200,000	$250,000	35,948	$221,760	0.68%	$1,511	$2,034	$523	35%	0.92%	-0.24%
97.4%	$250,000	$300,000	17,878	$272,613	0.61%	$1,659	$2,230	$571	34%	0.82%	-0.21%
98.0%	$300,000	$350,000	10,519	$323,061	0.55%	$1,779	$2,389	$610	34%	0.74%	-0.19%
98.4%	$350,000	$400,000	7,097	$373,511	0.50%	$1,885	$2,529	$644	34%	0.68%	-0.17%
98.7%	$400,000	$450,000	4,987	$423,426	0.47%	$1,974	$2,647	$673	34%	0.63%	-0.16%
98.9%	$450,000	$500,000	3,494	$473,837	0.43%	$2,057	$2,757	$700	34%	0.58%	-0.15%
99.2%	$500,000	$600,000	4,839	$546,326	0.39%	$2,152	$2,882	$731	34%	0.53%	-0.13%
99.4%	$600,000	$700,000	3,075	$646,934	0.35%	$2,279	$3,051	$773	34%	0.47%	-0.12%
99.5%	$700,000	$800,000	2,075	$747,609	0.32%	$2,383	$3,189	$807	34%	0.43%	-0.11%
99.6%	$800,000	$900,000	1,508	$848,790	0.29%	$2,478	$3,315	$838	34%	0.39%	-0.10%
99.6%	$900,000	$1,000,000	1,164	$946,752	0.27%	$2,552	$3,414	$862	34%	0.36%	-0.09%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	0.11%	$3,064	$4,091	$1,028	34%	0.15%	-0.04%
			1,734,730								

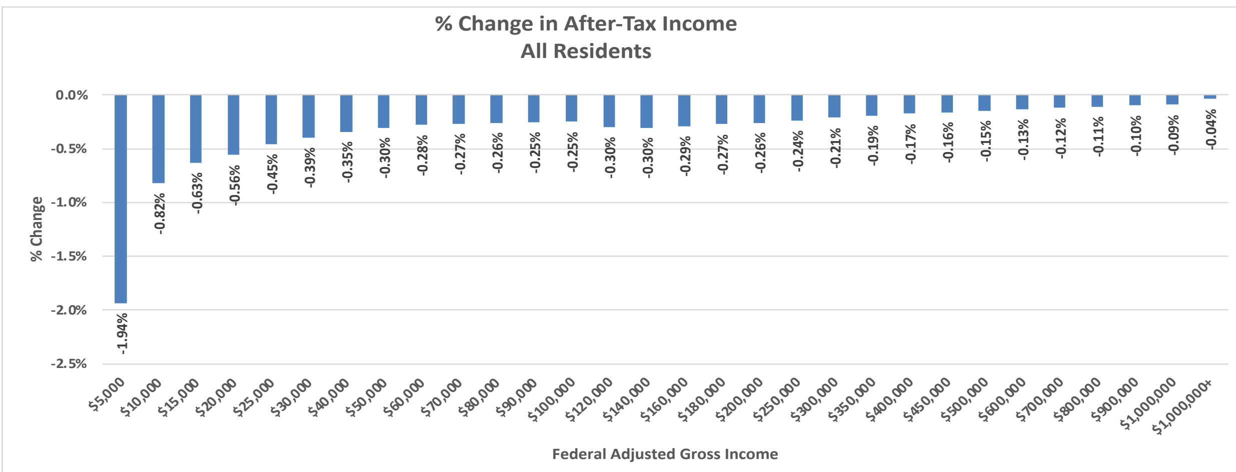
Based on Consumer Expenditure Survey data, compiled by the U.S. Dept of Labor. Estimated expenditures on pre-Nov'24 session sales-taxable goods & services vs post-Nov'24 sesion sales taxable goods & services. Includes in-state expenditures by resident households filing income tax returns with greater than $0 FAGI, and does not include expenditures by non-filing resident households, tourists or businesses. Excludes vehicle purchases.
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.
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.

The absolute dollar change in state sales tax liability and the percentage change in tax for each income cohort (the third and fourth columns from the right in the table above) are illustrated in the two charts below. In addition, for the sales tax scenario, a chart illustrating the resulting percentage changes in after-tax income for each income cohort is also displayed (column to far right in the table above).



State Tax Reform Enacted, 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 via an extension of the income tax microsimulation model in that returns and personal and dependent deduction counts serve as proxies for households and population, 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 the 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 additional digital products and services added to the tax base that individuals and households purchase were evaluated for their relationship to the survey's household income[33]. Those relationships were applied to the income tax microsimulation model averages of FAGI and personal and dependent deduction counts to estimate average sales taxable

[33] Only categories subject to state sales tax were evaluated for the 2024 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 additional digital products were evaluated in a like manner.

expenditures of the average household proxied in each FAGI cohort. Those expenditure estimates were then multiplied by the state's previous 4.45% sales tax rate to generate estimates of state general sales tax liability by FAGI cohorts for taxable goods and services subject to 2024 tax law. Expenditure estimates inclusive of the additional digital products and services were multiplied by the new 5% and 10% state sales tax rate[34]. The difference in these estimates constitutes the estimated effects on households of the sales taxation changes enacted in the November 2024 special session.

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 perfectly consistent with the details of goods and services subject to the state sales tax. In some cases, expenditure category matches seemed fairly obvious, and in some cases matches were not obvious. In some cases no survey data was available to reflect the transactions being evaluated. It is likely that for some categories the estimates are overstated and for some understated, with no solid indicators of the net error. Thus, the sales tax estimates should be taken with a greater degree of caution than the income tax estimates.

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 tax portion of this report applies here with regard to the sales tax, 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 a 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[35]. This summary is depicted and discussed below.

In the case of the sales tax, both the observed 2024 law line (dashed red line) and 2025 enacted law line (solid blue line) lie above the diagonal, indicating that the sales tax is regressive (lower

[34] 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 nearly proportionate growth of sales taxable expenditures observed as income rises at lower income levels, but less than proportionate expenditure growth as income rises at higher income levels. Family size was 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 deduction counts. The shift in the relationship model results in a modest discontinuity in the table and charts at the $120,000 FAGI level. Vehicle purchases were not included in the analysis. As the largest and infrequently purchased consumer durable, their inclusion would tend to distort the average sales-taxable expenditure basis of the analysis, in both levels and across income cohorts. However, the enacted sales tax increase from 4.45% to 5% does apply to vehicle purchases. Thus, their exclusion works to underestimate the effect of the sales tax changes on households in the periods in which they purchase a vehicle.

[35] 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.

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 2024 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 2024 law line of cumulative tax distribution. As can be seen in the Suits graph below, and summarized by the negative Suits index value, the 2024 law state sales tax exhibits regressivity.

Under the enacted changes for 2025, the degree of regressivity is very modestly increased. The 2025 enacted law line of cumulative tax liability plotted against cumulative FAGI lies slightly to the left of the 2024 law line (farther from the diagonal), and the 2025 Suits Index value is a slightly larger negative value at S = -.2384 (23.84%).

The supplemental Palma-Suits Index, measuring the multiple of tax liability of the top 10% of taxpayers relative to bottom 40% of taxpayers is also presented for the sales tax. With regard to the 2024 law sales tax liabilities, the Palma-Suits Index = 1.76; the top 10% of taxpayers have an aggregate sales tax liability that is slightly more than one and three-quarters that of the aggregate liability of the bottom 40% of taxpayers. The 2025 enacted changes reduce this multiple slightly to 1.73; confirming a very small increase in regressivity, 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 33% of the aggregate sales tax increase on households will be borne by the top 10% of taxpayers (FAGI of approximately $150,000 and up), with 67% borne by the 90% of taxpayers with lower incomes. To be fair, these shares are largely a function of the fact that, in general, higher absolute incomes spend higher absolute amounts on virtually all goods and services and will pay higher absolute amounts of sales tax.

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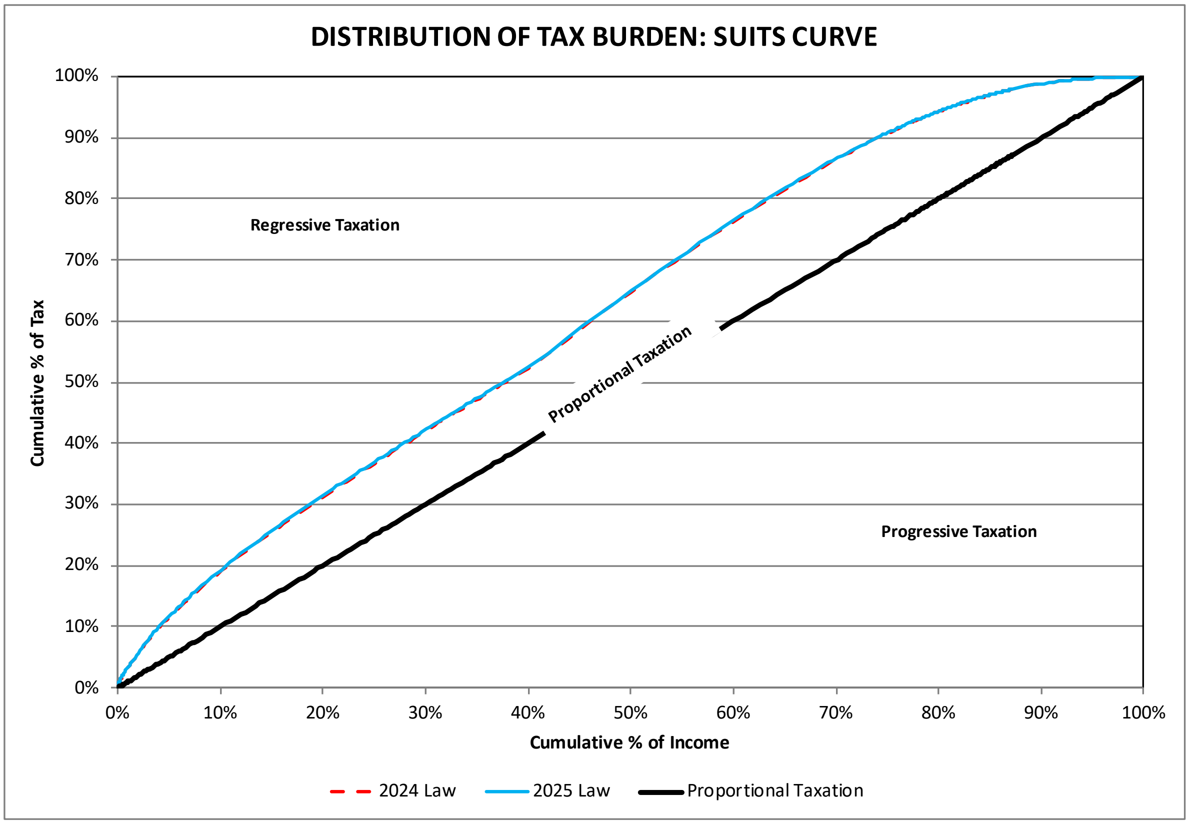

2024 Suits Index (S) = (0.2358)	S > 0 reflects a progressive tax	2024 T10/B40 Ratio = 1.76
2025 Suits Index (S) = (0.2384)	S < 0 reflects a regressive tax	2025 T10/B40 Ratio = 1.73

<u>Combined Individual Income Tax and General Sales Tax, Distributional Effects</u>

The table below summarizes the estimated combined change in state income and sales tax liability over various income cohorts, attributable to the enacted changes to the individual income tax and general sales tax. In this table, the major income and sales tax changes modeled in this report are included: the tax rate change to a single 3% rate, the standard deduction increases, the personal deduction eliminations, the doubling of the retirement income deduction, and the elimination of both the business net capital gains deduction and the IRC 280C deduction. Also included is the tax base expansion to digital goods and services, as well as the effect of the increase in the general sales tax rate to 5% and the additional 5% rate on certain telecommunications and digital goods and services. Only the future CPI indexing of the standard deduction and retirement income deduction are excluded.

The table below 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 enacted changes. As can be seen in the distributional tables above with respect to individuals and households, this result is due to the fact that the income tax reductions are generally larger than the sales tax increases. The table below also indicates that, on average, at the lowest income ranges (up to $15,000 of FAGI) the net combined tax effect can be very small, and can even be a tax increase. 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 digital goods and services, will pay a 5% or 10% sales tax on those purchases, as well as pay an additional 0.55% tax rate on all other taxable purchases in general[36].

Also of note in the table is the fact that the percentage changes in the combined tax 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 somewhat 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 enacted combined tax changes appear to only slightly change the overall 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 [1]	2024 Income & Sales Tax	2024 Effec Tax Rate [2]	2025 Income & Sales Tax	2025 Effec Tax Rate [2]	$ Change in Combined Tax	% Change in Combined Tax	%Chg in After Tax Inc
3.7%	$0	$5,000	64,487	$2,618	$127	4.9%	$175	6.7%	$48	27.4%	-1.93%
8.7%	$5,000	$10,000	86,862	$7,618	$201	2.6%	$227	3.0%	$27	11.8%	-0.36%
16.1%	$10,000	$15,000	128,037	$12,520	$310	2.5%	$302	2.4%	-$9	-2.9%	0.07%
24.0%	$15,000	$20,000	136,895	$17,408	$489	2.8%	$428	2.5%	-$61	-14.2%	0.36%
30.9%	$20,000	$25,000	120,464	$22,399	$652	2.9%	$510	2.3%	-$142	-27.9%	0.65%
37.3%	$25,000	$30,000	109,568	$27,462	$820	3.0%	$620	2.3%	-$200	-32.3%	0.75%
47.9%	$30,000	$40,000	183,891	$34,763	$1,067	3.1%	$848	2.4%	-$219	-25.8%	0.65%
56.1%	$40,000	$50,000	143,645	$44,820	$1,398	3.1%	$1,154	2.6%	-$244	-21.2%	0.56%
62.8%	$50,000	$60,000	116,250	$54,797	$1,742	3.2%	$1,460	2.7%	-$282	-19.3%	0.53%
68.2%	$60,000	$70,000	92,986	$64,810	$2,095	3.2%	$1,755	2.7%	-$339	-19.3%	0.54%
72.6%	$70,000	$80,000	76,173	$74,845	$2,450	3.3%	$2,065	2.8%	-$385	-18.7%	0.53%
76.3%	$80,000	$90,000	63,491	$84,856	$2,796	3.3%	$2,371	2.8%	-$425	-17.9%	0.52%
79.4%	$90,000	$100,000	54,392	$94,891	$3,158	3.3%	$2,695	2.8%	-$463	-17.2%	0.51%
84.5%	$100,000	$120,000	88,709	$109,550	$3,899	3.6%	$3,432	3.1%	-$466	-13.6%	0.44%
88.2%	$120,000	$140,000	64,403	$129,492	$4,867	3.8%	$4,290	3.3%	-$577	-13.4%	0.46%
90.9%	$140,000	$160,000	47,238	$149,497	$5,776	3.9%	$5,007	3.3%	-$769	-15.4%	0.54%
92.9%	$160,000	$180,000	33,752	$169,478	$6,682	3.9%	$5,708	3.4%	-$974	-17.1%	0.60%
94.3%	$180,000	$200,000	24,527	$189,524	$7,583	4.0%	$6,398	3.4%	-$1,185	-18.5%	0.65%
96.4%	$200,000	$250,000	35,948	$221,760	$9,026	4.1%	$7,487	3.4%	-$1,539	-20.6%	0.72%
97.4%	$250,000	$300,000	17,878	$272,613	$11,280	4.1%	$9,170	3.4%	-$2,109	-23.0%	0.81%
98.0%	$300,000	$350,000	10,519	$323,061	$13,499	4.2%	$10,812	3.3%	-$2,687	-24.8%	0.87%
98.4%	$350,000	$400,000	7,097	$373,511	$15,739	4.2%	$12,474	3.3%	-$3,264	-26.2%	0.91%
98.7%	$400,000	$450,000	4,987	$423,426	$17,870	4.2%	$14,046	3.3%	-$3,824	-27.2%	0.94%
98.9%	$450,000	$500,000	3,494	$473,837	$20,027	4.2%	$15,638	3.3%	-$4,389	-28.1%	0.97%
99.2%	$500,000	$600,000	4,839	$546,326	$23,179	4.2%	$17,947	3.3%	-$5,232	-29.2%	1.00%
99.4%	$600,000	$700,000	3,075	$646,934	$27,418	4.2%	$21,108	3.3%	-$6,310	-29.9%	1.02%
99.5%	$700,000	$800,000	2,075	$747,609	$31,684	4.2%	$24,219	3.2%	-$7,465	-30.8%	1.04%
99.6%	$800,000	$900,000	1,508	$848,790	$35,569	4.2%	$27,173	3.2%	-$8,396	-30.9%	1.03%
99.6%	$900,000	$1,000,000	1,164	$946,752	$39,712	4.2%	$30,215	3.2%	-$9,496	-31.4%	1.05%
100.0%	$1,000,000	$1,000,000+	6,376	$2,716,935	$105,158	3.9%	$81,356	3.0%	-$23,802	-29.3%	0.91%
			1,734,730								

Income Tax: Includes the change to a 3% single rate, doubled standard deduction, eliminated personal exemptions, the doubling of the retirement deduction, and the eliminations of the net business sale capital gains deduction and IRC 208C deduction.
Sales Tax: Includes increase in general tax rate to 5% from 4.45%, as well as 5%/10% tax rate as applicable to newly taxable digital goods and information services purchased by individuals and households.
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.

36 As was noted earlier in the report, 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 reflect the average results of all those situations within each income cohort.

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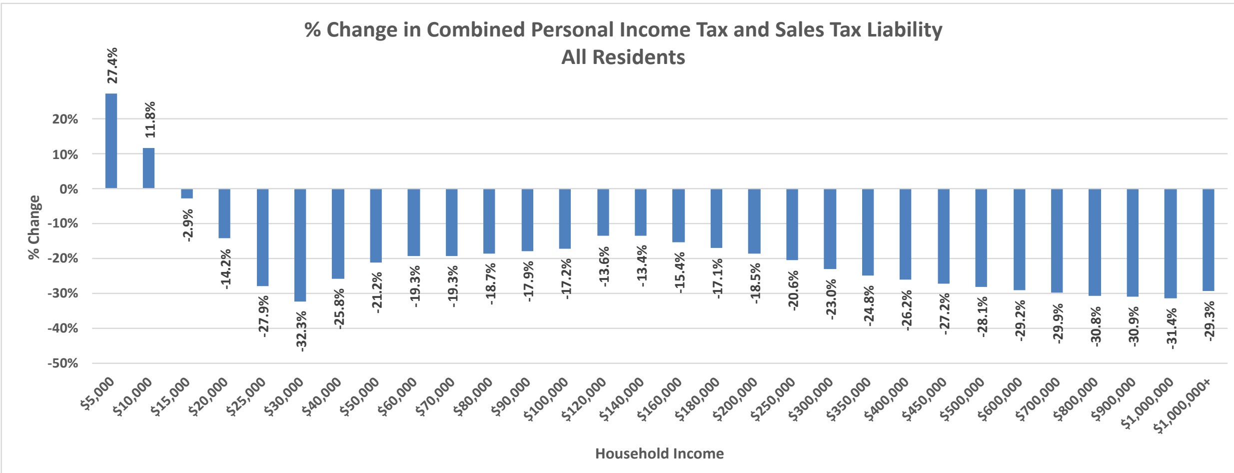
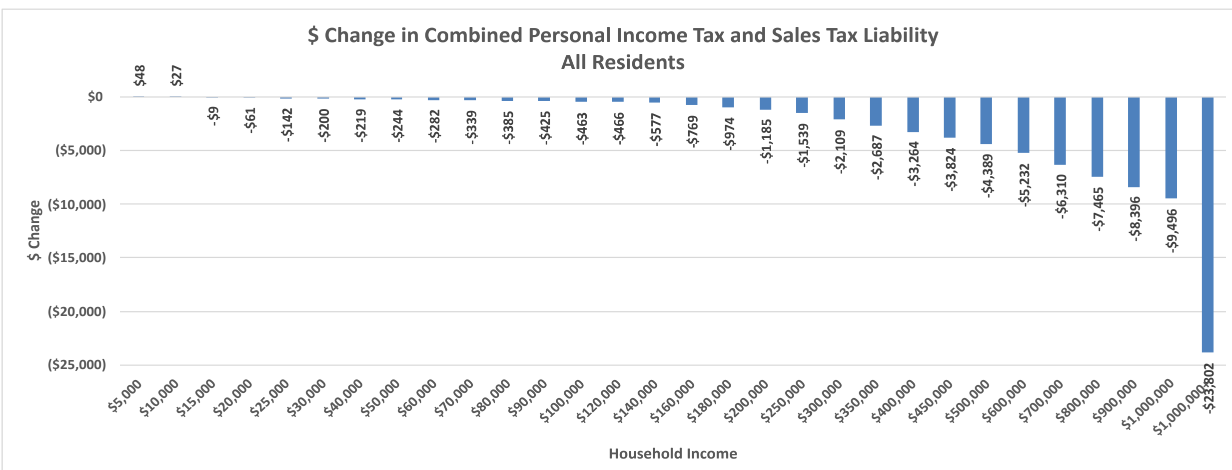
The absolute dollar change in combined tax liability and the percentage change for each income cohort (the second and third columns from the right in the table above) are illustrated in the two charts below. In addition, for the combined tax scenario, a chart illustrating the resulting percentage changes in after-tax income for each income cohort is also displayed (far right column in the table above).





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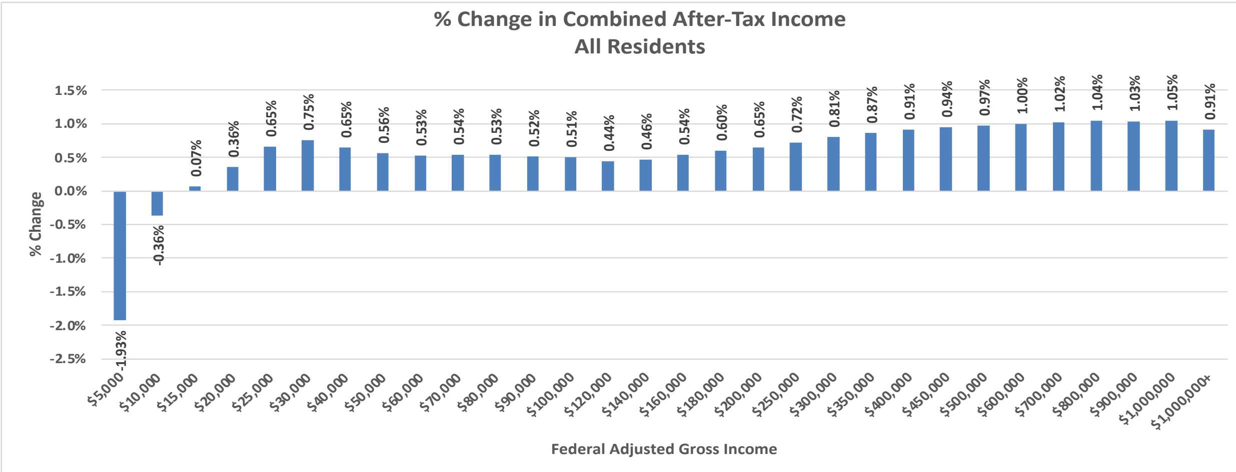

Combined Tax Distribution, Suits Index and Curve

As can be seen in the graph below, the 2024 law 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 very modestly progressive combined tax.

The combined effect of the tax changes enacted for 2025 make the distribution of the combined taxes less progressive, as evidenced by a 2024 law Index value of S = .0624 compared to a lower 2025 enacted law value of S = .0464[37]. In addition, the Palma-Suits Index value decreases by a small amount[38], indicating modestly less combined tax being borne by the top 10% of households relative to the bottom 40%[39].

[37] This is a 25.7% change in the Index value, coming from a fairly small base value of 0.0624.

[38] The percentage change in the Palma-Suits Index value is 5.3%.

[39] As noted above, a close observer of these metrics will notice differences in the current law estimates of these metrics as compared to those contained in an earlier report of proposed tax changes provided prior to enactment of the tax changes. This results from a change made to the calibration error correction made to the analysis since the earlier report that changed the levels of current and proposed law tax liabilities by relatively small amounts, but has essentially no effect on the differences.

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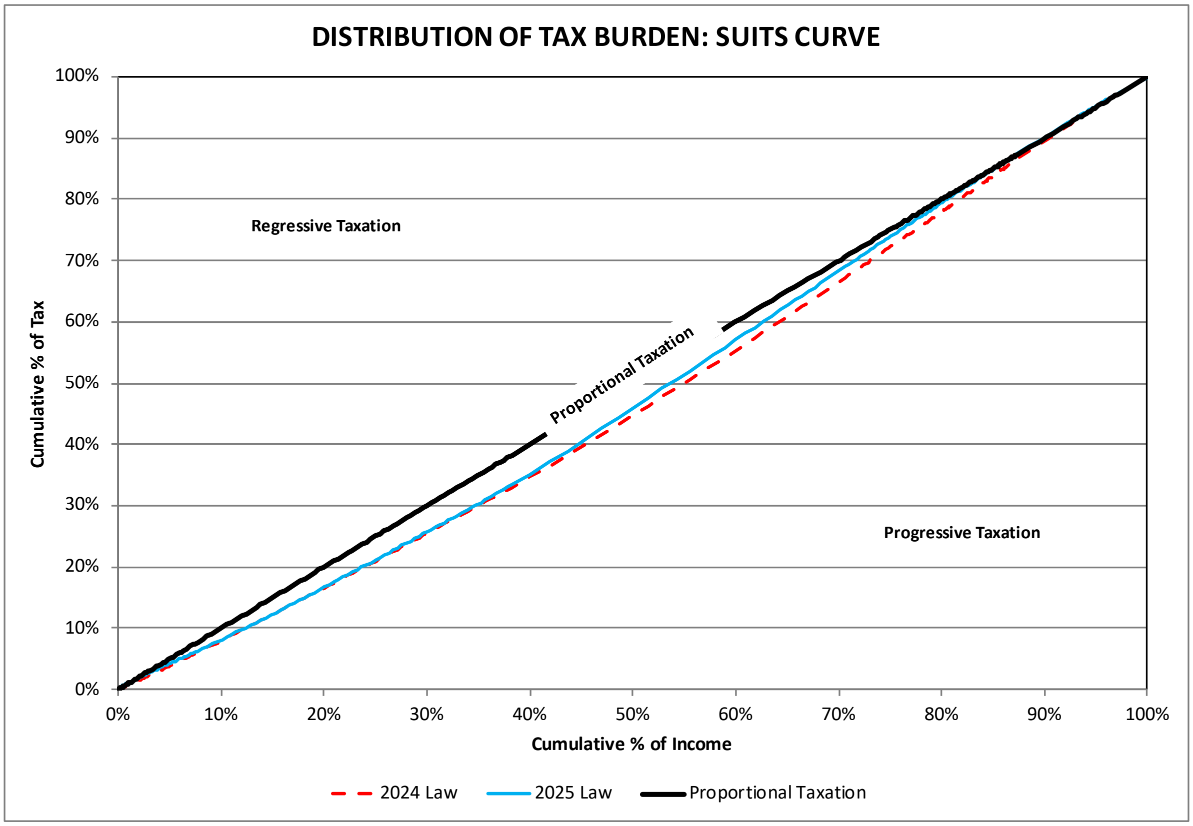

2024 Suits Index (S) = 0.0624	S > 0 reflects a progressive tax	2024 T10/B40 Ratio = 7.41
2025 Suits Index (S) = 0.0464	S < 0 reflects a regressive tax	2025 T10/B40 Ratio = 7.02

<u>Conclusions</u>

<u>With regard to the changes in the personal income tax</u>, the average filer in each income cohort experiences a material reduction in tax liability. Percentage reductions are larger for lower income filers than for higher income filers due largely to the increase in the standard deduction, which effectively eliminates taxation of much of the income of these filers, even with the elimination of the personal and dependent deductions, but only modestly reduces tax for higher income filers. Absolute reductions in tax liability are larger for higher income filers than for lower income filers due to the fact that they benefit from the increased standard deduction but especially from the rate reduction from 4.25% to 3% on substantial portions of their income, even with the elimination of the personal and dependent deductions, and the elimination the business sale capital gains deduction and IRC 280C expense deduction (both of which are relatively sparsely utilized). In addition, in significantly greater numbers and spread throughout the income cohorts are retirees that benefit from the doubling of the retirement income deduction.

While all income cohorts benefit from the changes to the personal income tax, it is of some note that the percentage increases in after-tax income are greater for certain lower income cohorts (for example $20,000 - $40,000) filers and higher income filers (for example over $200,000) than for the cohorts between those approximate income levels. This fact is indicative of how difficult it is to provide approximately equivalent effects (in percentage terms) across incomes when moving from a traditional progressive tax regime (even if only modestly progressive) to a single rate regime. The income tax burden was reduced throughout the income spectrum, and in terms of the overall progressivity reflected in the Suits Index (and curve) calculated in this analysis, the changes in the income tax increased the overall progressivity of the tax by nearly a third[40].

With regard to the changes in the sales tax, the average household in each income cohort experiences a material increase in tax liability. Percentage increases are larger for lower income households than for higher income households due largely to the fact that much of the spending by lower income households is on sales-taxable goods and services, even before consideration of the expansion of the tax base to digital goods and services and the increase in the traditional tax rate from 4.45% to 5%, and the levy of an additional 5% tax on certain telecommunications and digital goods and services. Absolute increases in tax liability are larger for higher income households than for lower income households due to the fact that, despite saving more and spending greater shares of their income on non-taxable services, their higher absolute incomes allow them to spend higher absolute amounts on sales-taxable goods and services, including the newly taxable telecommunications and digital goods and services.

With regard to the sales tax, the absolute dollar change in tax liability as well as the percent changes in liability and after-tax income exhibit smoother patterns across the income spectrum than is the case with the individual income tax. This reflects more consistent spending on sales-taxable goods & services associated with incomes across the income spectrum. The estimated patterns change modestly in the sales tax table and charts due largely to the change in the income-to-taxable expenditure relationship across the income spectrum. At lower incomes, taxable spending tends to be proportional to income, but at higher incomes taxable spending tends to be less than proportional to income.

In terms of overall regressivity reflected in the Suits Index (and curve) calculated in this analysis, the changes in the sales tax increased the regressivity of the tax by only a very modest amount[41]. This is due to the fact that higher income households tend to spend substantially more on these goods and services than do lower income households. Thus, expansion of the tax base to digital goods and services only very modestly changed the overall regressivity of the tax[42].

With regard to the combined changes in the income and sales tax, the average household in most of the income cohorts experiences a material reduction in combined tax liability due to the fact that the income tax reductions are larger than the sales tax increases. The pattern of larger percentage reductions in tax and percentage increases in after-tax income at lower and higher income cohorts than in middle cohorts, that were exhibited and discussed above with respect the income tax by itself, are evident in the combined result due to the larger income tax reductions than sales tax increases in most, but not all, income cohorts. Absolute dollar

[40] The percentage change in the Suits index from the 2024 regime (0.1334) to the newly enacted 2025 regime (0.1770) is 32.7%.
[41] The percentage change in the Suits index from the 2024 regime (0.2358) to the newly enacted 2025 regime (0.2384) is 1.1%.
[42] The increase in the tax rate essentially has a scalar effect on the overall progressivity calculation. All households are subject to the same tax rate or change in the tax rate. The progressivity calculation is driven by the cumulative amount spent on taxable goods and services relative to the cumulative income from which those expenditures are made.

reductions in combined tax liability are materially greater at higher income cohorts for the same reason.

However, of particular note in a combined analysis is the fact that households at the lowest income levels (up to approximately $15,000 - $20,000) are likely to experience little combined tax reduction and even a combined tax increase. This occurs because these low income households have little or no income tax liability to begin with, so they benefit little or none from the income tax reduction, but they are subject to the sales tax rate increase from 4.45% to 5% on all traditionally taxable goods and services, as well as the 10% sales tax on certain telecommunications and digital goods and services base expansion.

In terms of overall progressivity reflected in the Suits Index (and curve) calculated in this analysis, prior to the enacted changes to both taxes, the sales tax exhibits a greater degree of regressivity than the degree of progressivity of the income tax. However, the income tax is more significant relative to income than is the sales tax for much of the income spectrum[43]. Thus, the distribution of the combined taxes across incomes results in an overall modestly progressive tax system. This remains true after the enacted changes to both taxes, as well, with the newly enacted system somewhat less progressive than before the changes, but still modestly progressive.

Fairly large changes were enacted to each tax. While there are a number of approximations, assumptions, and uncertainties in any analysis such as presented in this report, taken together, the changes enacted do not appear to significantly change the overall distribution of combined tax for individuals and households, although changes to particular individuals and households can be material. While most individuals and households will experience a combined tax reduction, those at the very bottom of the income spectrum will likely experience only a small combined tax reduction, and some will likely experience a combined tax increase[44]. Having noted that, it must be remembered that this analysis presents a high-level aggregation and summary of 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.

[43] This is evidenced by the 2024 and 2025 effective tax rate columns in the respective tables for the income tax and the sales tax.

[44] Note that in the combined tax table, combined tax increases occur for the bottom 8.7% of proxied households (over 151,000 households), and only a small combined reduction occurs for the next 7.4% of proxied households (over 128,000 households).