



RESET Louisiana Updates Tax Study

Economist provides information on impacts of enacted income and sales tax changes on Louisiana households

RESET Louisiana hired noted economist Greg Albrecht in fall 2024 to estimate the impacts of proposed changes to state income and sales taxes from Gov. Jeff Landry's administration as part of its tax reform initiative. Lawmakers in a November special session passed many administration proposals but with some significant adjustments from the original proposals that Albrecht analyzed.

In response, RESET asked Albrecht to conduct a follow-up study looking at the same tax types but based on the final version of tax changes enacted into law.

The updated study shows that, under the new Louisiana tax system, most Louisiana households are likely to see a reduction in their overall tax liability. Further, while the new tax structure is slightly less progressive than the prior tax system, it remains modestly progressive overall.

As with the original study, Albrecht's work uses income tax data from more than 1.7 million Louisiana income tax returns along with sales tax collection modeling from the Louisiana Department of Revenue. It estimates the impacts of the tax changes on taxpayers across 30 income brackets. This document includes highlights of the full study, which can be found on the [RESET Louisiana](#) website.

Income Tax Changes in New Laws

The income tax changes from the November 2024 special session:

- Set a new 3% flat income tax rate for taxpayers at all income levels effective as of Jan. 1, 2025. This replaced the tiered tax rate structure of 1.85%, 3.5% and 4.25% based on taxable income levels that was previously in place. Overall, this results in a lower marginal tax rate for the middle and top tiers of taxpayers.
- More than doubled the standard deduction for all taxpayers, which effectively eliminates the tax for the bottom tier of taxpayers who were previously taxed at a rate of 1.85%.

- Double the deduction for retirement income from \$6,000 to \$12,000 for those 65 or older, reducing taxable income for these taxpayers.
- Index both the increase in the standard deduction and the deduction for retirement income to inflation, based on the Consumer Price Index.
- Eliminate deductions of \$1,000 for dependents, retirees over age 65 and the blind. The loss of these deductions is more than offset by other changes to the income tax.
- Eliminate deductions for business capital gains and Internal Revenue Code 280C expenses (dealing with certain business deductions and credits). These tend to impact taxpayers at upper income levels, with only a minimal effect on their tax liabilities.

These are the same income tax changes the administration originally proposed for the special session, with one exception: The version that finally passed added an inflation adjustment to the increases in the standard deduction and retirement income.

Impacts of Income Tax Changes:

While the dollar amount of income tax reductions gets larger as income rises, RESET's latest report shows that percentage of the reduction in tax liability tends to be larger at lower incomes. In that sense, the new changes to the income tax appear to increase the progressivity of the state income tax compared to the prior system.

In actual dollars, however, about 52% of the total income tax reduction will go to the top 10% of income filers – those with adjusted gross incomes of around \$150,000 or more. About 48% of the tax cuts will go to the remaining 90% of households reporting lower incomes. This is largely a function of the fact that those at higher incomes generally pay a larger dollar amount of income taxes.

In Louisiana, income for most businesses is taxed through the individual income tax not the corporate income tax. Because of this, the income tax reductions are effectively reducing income tax liability not only for individuals and households, but also for most businesses in the state.

The report notes, however, that the inclusion of business taxes in the individual income tax tends to distort the impacts seen in the tax tables for filers reporting very low levels of adjusted gross income. This is because a significant number of those returns show a pass through of business income losses.

Sales Tax Changes in New Law

The sales tax changes from the November 2024 special session:

- Increase the overall sales tax rate from 4.45% to 5% effective Jan. 1, 2025, until 2030.
- Expand the general sales tax base to include digital products such as online streaming services, prewritten computer software, cable television and satellite entertainment services.
- Levy an additional 5% tax on top of the general sales tax on telecommunications services such as cable television and satellite entertainment services, effectively bringing the rate on those services to 10%.
- Differ significantly from the administration's original sales tax proposal, which would have retained the lower 4.45% general sales tax but expanded the tax base to include a wider array of newly taxable services.

Impacts of Sales Tax Changes:

All Louisiana households are likely to see an increase in their state sales tax liability because the changes increase the general sales tax and apply it to some additional services.

The percentage increase for lower-income households is higher than for those at upper-income levels, largely because those with less income spend larger portions of it on goods and services subject to sales taxes.

Conversely, the tax increase in actual dollars is greater for higher-income households because their higher incomes allow them to spend more on goods and services that are taxed.

According to RESET's report, the changes in sales tax make the tax system slightly more regressive than before the law was changed, as well as slightly more regressive than the administration's original proposal. This is because the original proposal extended the sales tax base to services that are not necessarily used to the same degree by all households, particularly at lower-income levels. The current increase, on the other hand, applies to general sales taxes on all taxable items.

The study notes that the top 10% of taxpayers in the state will pay about 33% of the total sales tax increase with 67% borne by the 90% of taxpayers with lower incomes. This is because, in general, those with higher incomes spend higher amounts of money and thus pay higher amounts of sales tax.

Impact of Combined Income and Sales Tax Changes

When looking at the combined impact of the changes to the individual income tax and the state sales tax, RESET's report shows most Louisiana households are likely to see a reduction in their overall tax liability. That is because the reductions in income taxes are generally larger than the increases in sales tax.

The study also shows that overall, the new changes to income and sales tax make only slight changes to the way the liability of those taxes is distributed under the current system.

Under the new plan, about 721,000 households (42%) will receive a reduction of 20% or more in their combined sales and income tax liability. That is fewer than the 1,078,000 that would have seen reductions under the original proposal. Of those taxpayers, 91% have adjusted gross incomes below \$50,000.

Those between \$50,000 and \$200,000 will still see a net reduction in income and sales taxes, but in a range from about 13% to 19%. Those with incomes above \$200,000 will also see tax reductions of 20% or more, but they represent fewer than 100,000 taxpayers.

About 151,000 households with reported incomes between \$0 and \$10,000 will see a slight increase in their taxes. This group includes taxpayers who were likely paying little to no income taxes before the changes. Because of this, they were unable to realize any meaningful benefit from the across-the-board reduction in personal income taxes, while paying more because of increases in the sales tax. Nonetheless, the estimated tax increase for these households is extremely small, averaging less than \$50 per year.

Conclusion

The RESET study sought to provide information about the impacts of the newly enacted changes to state income and sales taxes on taxpayers across a wide range of incomes. In doing so, three major findings emerge:

The vast majority of Louisiana citizens will see a tax cut, almost all in double-digit percentages.

When considering the changes to both income and sales taxes, the state's tax system becomes slightly less progressive than it was but remains modestly progressive overall.

The overall reduction in taxes for most taxpayers, while significant, is slightly less than it would have been under the administration's original proposal.

RESET Louisiana is a nonpartisan collaboration between Leaders for A Better Louisiana and the Public Affairs Research Council of Louisiana to pursue public policy initiatives that will improve the state's future.