

Ellevate LA 2021 Policy Statements

Elimination of the Federal Income Tax Deduction

Louisiana is one of only three states that allow a full deduction for federal income taxes paid for purposes of computing Individual and Corporate Income Tax. The reason that other states do not grant the deduction is that it causes wide swings in state tax revenues when federal laws change. Policy groups that rank the tax environments of states do not credit our state for having this large deduction, but instead penalize us for having the higher tax rates that result from giving it.

As a result of the Federal income tax deduction, Louisiana's actual income tax rates are much higher than its effective tax rates. Our average effective personal tax rate is around 4%, whereas our actual top tax rate is 6%. Although the effective rate is more difficult to discern for Corporate tax, the actual top tax rate is 8%, which is on the high side. By eliminating the Federal income tax deduction, Louisiana's tax rates could be lowered considerably.

Being able to do this would substantially change the world's impression of Louisiana's tax environment. States with no income tax or low income tax rates appear to be attracting larger numbers of residents and jobs. We not only have an income tax, but appear to have one of the higher rates in the South. The truth is, our effective income tax rates are low. Eliminating the federal income tax deduction and lowering our stated rates will show the world the truth about Louisiana's tax low rates, thus improving the perception of our tax environment and our prospects for attracting jobs and population.

In order to eliminate this deduction, the legislature must pass a constitutional amendment requiring a 2/3's vote in the legislature and a majority vote of the public. This will not be easy.

Ellevate Louisiana supports legislation that eliminates the Federal Income Tax Deduction by simply changing rates for all tax brackets to ensure that the result is not only revenue-neutral, but bracket-neutral. This means that taxpayers at every socioeconomic level and businesses of every size will see a corresponding reduction in their state income tax rate. It is important for our state to eliminate this risky deduction in a way that is fair to all of our citizens and does not also include other policy changes that might cloud the issue. This is a time to craft legislation that does not pit one group against another, but simply removes an unwise deduction from our law and paves the easiest path to passage. It is our hope that the options for eliminating the deduction be presented in a transparent way, so that everyone can truly understand the impact it will have on their tax liability.