



PRIMER ON STATE TAX STRUCTURE IN LOUISIANA

October 8, 2012

This primer was prepared jointly by the Louisiana Department of Revenue (LDR) and Louisiana Economic Development (LED). Most tax exemption data in this report was taken directly from LDR's Tax Exemption Budget reports; however, in some cases supplemental data and/or estimates from LDR have been utilized to better illustrate selected concepts and to incorporate improved estimation methodologies that LDR has developed in recent years.

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EXECUTIVE SUMMARY

The ultimate goal of a tax system is to create a competitive tax environment that supports economic growth, with a reasonable overall tax burden for different types of businesses and individuals, while generating an appropriate amount of revenue for government services. Because tax exemptions (e.g., exclusions, deductions, credits) directly impact actual tax burdens of individuals and businesses, any evaluation of state tax exemptions must be considered within the context of their impact on the overall tax structure of a state.

Simplicity and stability are key tenets of a sound tax structure. An ideal tax structure generally is considered to be one with a broad base; low, flat rates; multiple revenue sources; and few exemptions, making compliance easier and less costly for both the taxpayer and government. A predictable and stable tax structure has multiple tax sources and is altered infrequently, enhancing taxpayer understanding of their tax liability and providing stable state revenues to fund government activities.

Louisiana derives the majority of its state tax revenue from sales tax, individual income tax, severance tax, petroleum tax, and corporate income/franchise tax. The base, rates, and exemptions vary for each of these tax types. For example, the individual income tax has three brackets, while the corporate income tax has five, with rates increasing incrementally as income rises. The state sales tax is a single flat rate with no brackets but with the addition of sales tax from respective local taxing jurisdictions (there are 493 in Louisiana, each with different rates),¹ compliance with sales tax law becomes complicated. Furthermore, businesses could potentially be required to file separate sales tax returns for each business location in each parish in which they operate as well as a state return for each location. Additionally, for each tax type, Louisiana, like other states, has established a variety of tax credits, deductions, and exemptions that function to decrease a business or individual's tax burden and impact the amount of taxes actually collected.

A state's tax structure, including exemptions, is one important aspect of its overall economic competitiveness relative to other states and countries. The tax environment is generally among the top 10 factors in site-location decisions for major business investment projects. Its impact on different types of taxpayers depends on the nature of a particular firm's activities (e.g., capital intensive firm vs. labor intensive firm). For example, while Louisiana has the second lowest state and local tax burden in the United States (U.S.) overall for new firms and tenth lowest for mature firms, the State is ranked 43rd for new distribution centers and 40th for mature distribution centers.² Moreover, while a large portion of families would pay higher taxes in Texas than in Louisiana (considering applicable sales, income, and property taxes), Texas typically offers a more competitive tax environment for individuals with very high incomes.³ This is important, in part, because business executives, who are typically high income individuals, make site-location decisions for companies. Given these factors, it is critical that the overall tax structure, including exemptions, be taken into consideration when evaluating a state's tax burdens and competitiveness.

Tax exemptions are present in all of Louisiana's major tax types and are used to accomplish a wide variety of policy objectives. Depending on the specific exemption and desired policy goal, exemptions can benefit all or most Louisiana taxpayers, or they can apply to a specific class of taxpayer. Each tax exemption has a different purpose, such as generating business activity that creates future new tax revenue, driving specific consumer behavior, or creating new jobs. Each exemption also can impact Louisiana's overall tax competitiveness versus other states.

¹ Louisiana Department of Public Safety, Parish & Municipal Sales Tax Disbursement Codes, July 2012

² Tax Foundation and KPMG, *Location Matters: A Comparative Analysis of State Tax Costs on Business*, 2012

³ KPMG, *State of Louisiana: Department of Economic Development Cost of Living Tax Analysis*, March 2011

The 2011-12 Louisiana Tax Exemption Budget (TEB) reports on a total of 468 statutory, constitutional or federally mandated tax incentives, credits, exclusions, deductions, preferential tax treatments, tax deferrals, and rebates (which have a similar effect as refundable tax credits). For simplicity, all of these will be referred to as tax exemptions in this primer, which is similar to the approach taken by LDR in the TEB.

The annual TEB in Louisiana, which has been in place since 1983, is one of the more comprehensive tax exemption reports published in the Southern region. Many states publish reports with much less detail (e.g., entirely excluding exemptions related to major tax types, exemptions related to conformity with federal tax exemptions, and descriptions of exemptions, among others) or publish a tax exemption report only once every two or more years.

Based on a cursory review of tax exemption reports in other states, it is clear that tax exemptions can have a very substantial impact on the character of a state's overall tax structure as well as on the amount of tax revenues actually collected, with at least some states (e.g., Massachusetts, Oklahoma, Oregon, and Tennessee) reporting that tax exemptions can total an amount comparable to the amount of taxes actually collected.

In FY11, the total value of tax exemptions utilized in Louisiana was approximately \$6.9 billion, including \$4.8 billion in statutory exemptions, \$1.9 billion in state constitutional exemptions, and \$0.2 billion in federally mandated exemptions. In this primer, we will exclude discussion of federally mandated exemptions as those are outside the control of the Louisiana Legislature and the State's Constitution. Of all the existing tax exemptions in Louisiana, just 25 exemptions represented nearly 80 percent of the \$6.8 billion total (rounded) in FY11 (excluding federally mandated exemptions).

The economic development incentive programs managed by LED collectively amounted to 5 percent of the value of all state tax exemptions in FY11. Accordingly, non-LED programs were responsible for about 95 percent of the value of tax exemptions in FY11.

This primer provides an overview of the tax system in the State of Louisiana with an emphasis on tax exemptions. The ideal attributes of a tax system are described, followed by an overview of the Louisiana tax system and its competitiveness for businesses and individuals. A summary of exemptions in Louisiana is then provided and each tax type and corresponding exemptions are further broken out in separate sections, including a section on LED-managed exemptions.

OVERVIEW OF STATE TAX SYSTEMS

State tax systems are composed of many elements, including the “base” of activity subject to tax, rates, brackets, and exemptions. The entire tax system determines a state’s tax burdens for individuals and businesses, which contributes to its competitiveness in attracting, retaining, and expanding businesses.

Generally, the ideal factors of a tax system include a broad tax base, a single low rate for each tax type, multiple revenue sources, and few exemptions, resulting in a simple, transparent system that provides predictable and stable government revenue. A simpler, more transparent system also makes compliance easier, reducing administrative costs both for the taxpayer and government, and contributes to real and perceived fairness and equity by taxpayers.⁴

The tax base, as it relates to states, is the value of a set of assets, investments, transactions, or income streams (depending on the tax type) that are subject to taxation, and a tax rate is the percentage used to calculate various taxes. Tax brackets are the divisions at which tax rates change; they are the cutoff values for taxable income. A tax system begins with a particular tax base. The base is then taxed at certain rates. The tax system, and thus the state revenue stream, relies on the ability and willingness of taxpayers to understand, comply with, and properly self-assess their respective tax liabilities. A broad base with low rates and few exemptions makes it easier for taxpayers to understand and comply with the tax system and for the state or local government to administer it. In a simpler system, with few or no tax exemptions, the base remains broad (rather than narrowed by exemptions), and lower tax rates can yield the same revenue levels as a more complex system with higher rates and more exemptions.

States with multiple streams of tax revenue avoid a reliance on one particular tax type. This balanced approach provides a greater degree of revenue stability and predictability, because tax revenues are affected differently by changes in the economy. Considering that most states operate under a balanced budget requirement, like Louisiana, the ability to predict how much revenue is likely to be collected and when its collection will occur is critical for stability. Most states, including Louisiana, derive the majority of state tax revenue from sales and individual income tax, along with a differing mixture of other tax sources, excluding local taxes.

OVERVIEW OF LOUISIANA TAX SYSTEM

Louisiana’s tax system is comprised of numerous tax types. The main tax types are (from greatest revenue collections to least):

- Sales tax
- Individual income tax (IIT)
- Severance tax
- Petroleum tax
- Corporate income and franchise taxes (CIFT)

The measure upon which tax liability is assessed – the tax base – varies for each tax type listed above. For example, the sales tax base in Louisiana consists of the sales of tangible personal property, rental or lease of movable property, and sales of selected services. While a broad-based sales tax will apply to most of its potential tax base, meaning that the sales tax applies to

⁴ American Institute of Certified Public Accountants, Inc., *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals*, March 2001

almost all purchases of goods and services, a narrow-based tax will apply to fewer items. This can be observed in Louisiana: the State exempts from sales tax many goods typically purchased by consumers (e.g., groceries for home consumption, power for residential use, gasoline).

Louisiana authorizes 468 different tax exemptions (as of the 2011-2012 version of LDR's TEB). These exemptions generally function to decrease tax burden and are found in every tax type. They were created by the Legislature to attain various goals, ranging from compliance with federal prohibitions on taxation and driving specific consumer behavior, to creating investment incentives that spur job creation and generate future new tax revenue. Depending on the specific exemption and desired policy goal, exemptions can benefit all or most Louisiana taxpayers, or they can apply to a specific class of taxpayer. In general, an individual income tax exemption will usually result in lower tax burdens for participating individuals. Corporate tax exemptions usually result in lower tax burdens for participating businesses. Sales tax exemptions usually result in an exemption of an item or a type of transaction from taxation, thus a lower net cost to the purchaser.

A tax structure with a smaller taxable base (typically characterized by many tax exemptions) generally will have higher tax rates than a tax structure with a broader taxable base (typically characterized by fewer exemptions). Accordingly, when tax exemptions are removed (broadening the taxable base), marginal tax rates generally can be reduced to a certain degree while maintaining budget neutrality. Economic development exemptions could be an exception to this general rule if they are designed in such a fashion that they help secure additional economic activity, such as jobs, sales, and tax revenues that otherwise would not exist. In Louisiana, the fiscal impact of all state tax exemptions is accounted for in the Revenue Estimating Conference forecasting process, which estimates the expected revenues for the State.

Tax rates in Louisiana also vary for each tax type. Both income taxes (individual and corporate) apply different tax rates depending on income, also called a graduated tax structure. The current individual income tax structure contains three brackets (the range of income on which the rate applies), with rates increasing as income rises. The current corporate income structure consists of even more brackets – five – with the rates increasing as income rises. While three brackets for individual income tax is average nationally, five brackets for corporate income tax is above the norm. The state sales tax rate is a flat rate with no brackets. The severance tax rate varies depending on the type of well producing the oil or gas, and the petroleum tax rate is a flat rate assessed on volume.

LOUISIANA'S TAX COMPETITIVENESS

A state's tax structure influences its overall economic competitiveness for attracting businesses and individuals, and for retaining and expanding those productive resources over time. A state's tax environment is almost always among the top 10 site-selection factors for competitive economic development projects. In recent surveys⁵, more than 80 percent of business executives and site selection consultants cited each of the following factors as "important" or "very important" in the site selection process: corporate tax rate, tax exemptions, and state and local incentives.

A competitive tax structure involves stability, simplicity, administrative ease, and of course a reasonable overall tax burden for different types of businesses and individuals. It also involves a

⁵ *Area Development 26th Annual Corporate Survey and 8th Annual Consultants Survey, 2011*

reasonable degree of compatibility with tax systems in other states, consistent treatment for interstate operations, and conformity with the federal tax system. Exemptions make up part of a state's overall tax system, along with the types of taxes levied, tax rates and brackets, and other factors. As such, it is the entire tax system, not just exemptions, that determines a state's tax burdens and competitiveness. There are many measures of competitiveness because tax systems impact different types of taxpayers in different ways. In fact, even if a tax system were applied to all taxpayers in exactly the same way, their individual tax burdens could be significantly different due to fundamental differences in the nature of their activities. For example, a capital-intensive business would generally pay much higher property taxes than its counterparts in other sectors. Given these differences and nuances, tax competitiveness should be viewed in general terms (e.g., overall state/local tax collections per capita, excluding taxes paid by residents and businesses located in other states) and in particular areas (e.g., state/local tax burden for key industry sectors).

National rankings of state business climates typically include components that measure the competitiveness of state tax structures. In part due to business tax and exemption changes enacted since 2008, Louisiana has improved to its highest-ever position in every major national ranking of state business climates, including those published by *Area Development*, *Business Facilities*, CNBC, *Forbes*, Pollina Corporate Real Estate, *Site Selection* and *Chief Executive*. The following sections describe how Louisiana stacks up on evaluations that focus on tax competitiveness and burdens in particular. Some of the measures are used as inputs for the tax-related components in broader rankings of state business climates.

Business Tax Competitiveness

Evaluations of state business tax competitiveness come in many forms (e.g., indices, rankings, data tables) and can be based on tax rates (e.g., corporate tax rate) or tax burdens (e.g., ratio of taxes paid to profits). For example, some studies compare total tax collections or business tax collections per capita or as a percent of total tax revenue. Others assess the relative value of tax incentives available for different types of businesses, while still others define model tax structure principles and measure a state's tax code relative to that model. However, few studies provide comparisons of actual state business tax burdens from a realistic business perspective. Accordingly, the best comparisons of business tax burdens not only consider tax rates, but also reflect state statutory incentives (exemptions) and industry-specific factors (e.g., apportionment formulas), as applied to model firms. (Appendix A compares Louisiana's business tax competitiveness among all U.S. states and the South on five rankings.)

The most comprehensive and meaningful analysis of business tax competitiveness is *Location Matters: A Comparative Analysis of State Tax Costs on Business*, which was created by the Tax Foundation and KPMG. The report provides an apples-to-apples comparison of state and local corporate tax burdens in all 50 states. To create the study, state and local tax burdens for several industry sectors were analyzed for both new and mature operations. Louisiana has the second lowest state and local tax burden in the U.S. for new firms and tenth lowest for mature firms. Additionally, Louisiana is ranked 1st in the U.S. in overall tax competitiveness for new manufacturing operations (both labor-intensive and capital-intensive) and also ranks 1st in the U.S. in overall tax competitiveness for both new and mature research-and-development facilities. However, Louisiana is not at the top of the list for all industries; the State is ranked 42nd for new call centers, 29th for mature call centers, 43rd for new distribution centers, and 40th for mature distribution centers. To help address these specific issues in competitive project situations, Louisiana recently created new, targeted incentive programs that substantially enhance our state's ability to cultivate these specific industry sectors. LED estimates that these incentives have the potential to secure more than a billion dollars in capital investment and thousands of jobs in these targeted sectors over the next five to ten years.

Considering only Southern states, the Tax Foundation study ranks Louisiana 1st for new firms and 3rd for mature firms. In 2002, the Public Affairs Research Council of Louisiana (PAR) published *Corporate Tax Burdens in the Southern States: A Comparison*, a study utilizing a similar methodology as that of the Tax Foundation but focusing only on 12 Southern states. The PAR study indicated Louisiana's average rank in its study was 10th for mature firms analyzed in the 12-state pool. Accordingly, Louisiana's business tax competitiveness has improved significantly since 2002 based on the results of the new Tax Foundation analysis.

The Tax Foundation also publishes the *State Business Tax Climate Index*. The index measures all 50 states on corporate, individual income, sales, unemployment insurance, and property taxes. It does not consider industry mix and evaluates state tax systems based on how closely they align with principles of tax neutrality and fairness (not on actual business tax burdens). Additionally, states that do not levy taxes in all five categories have an advantage over more complex tax systems like Louisiana's. Overall, Louisiana is ranked 32nd in the U.S., with a rank of 49th in the sales tax component (in large part because Louisiana has a relatively complex sales tax system and the highest average local sales tax rate in the country). Other factors contributing to Louisiana's relatively low overall rank include the number of different tax types levied (top-ranked states generally do not levy one or more of the major taxes), the relatively high rates and graduated structure of the State's individual income tax and corporate income tax (these factors are encouraged by the presence of many exemptions, including deductions for federal income taxes paid), the different types of tax incentives applied against its corporate income tax, and the presence of various sales tax exemptions and excise taxes. Furthermore, as one of a handful of states with (local) ad valorem taxes on business inventories, Louisiana is negatively impacted in many rankings (e.g., Pollina Corporate Real Estate), even though a state inventory tax credit in Louisiana completely offsets the impact of local inventory taxes paid by businesses.

Most corporate executives are far more concerned with their bottom-line state/local tax burdens than they are with the philosophical structure of a particular state's tax system. Nevertheless, the Tax Foundation's *State Business Tax Climate Index* still is incorporated into a variety of state business climate rankings. Accordingly, the perception of Louisiana's business climate would improve to the extent that the State makes changes that would result in a simpler tax structure (i.e., reducing the number of brackets and exemptions, while avoiding a net increase in tax revenues).

Individual Tax Competitiveness

There is wide variation in the structure of state and local tax systems that impact individuals across the U.S. Similarly, there are many methods to measure the tax competitiveness of states. No measure fully elucidates the whole picture of individual tax burdens, especially since rankings typically reflect the philosophy of the author or publishing organization. Nonetheless, state residents are typically most pleased when they feel their tax rates are reasonable and not excessively high. It is important to view individual tax burdens comprehensively as there are considerable variations in tax structure across states. For instance, states that do not levy certain taxes (e.g., income tax) typically have substantially higher effective rates for other components (e.g., property tax) to support public services at sufficient levels. (Appendix B compares Louisiana's tax competitiveness for individuals among all U.S. states and the South on four rankings.)

The Tax Foundation's *State-Local Tax Burden* report has consistently ranked Louisiana's overall individual state/local tax burden as one of the lowest in the U.S. based on the total amount of taxes paid by a state's residents relative to total individual income in the state.

Louisiana's 2009 state and local tax burden of 8.2 percent of income (9th lowest nationally) is significantly below the national average of 9.8 percent, although it has increased from 7.7 percent (1st lowest nationally) in 1977. Among states levying an individual income tax, Louisiana's top rate ranks 30th lowest nationally.

A 2012 Tax Foundation report ranked Louisiana 48th for having one of the highest combined state and local sales tax rates. While Louisiana has one of the lowest state sales tax rates (ranked 13th lowest for state rate among states with sales taxes), the inclusion of high local sales tax rates moves Louisiana towards the bottom in terms of the combined state and local rate (8.85 percent). On the other hand, as one of 37 states that collect property taxes at the state and local levels, Louisiana has the sixth-lowest combined state and local property taxes in the U.S. on a per capita basis (\$702 per person).⁶

While reports on individual tax burdens typically illustrate impacts on an average person or family, more detailed analysis shows that state and local tax systems can impact individual people quite differently. For example, a third-party analysis recently commissioned by LED indicates that while a large portion of families would pay higher taxes (including taxes on property, sales, and income) in Texas than in Louisiana, Texas typically offers lower tax burdens for individuals with very high incomes. These distinctions are important in part because business executives, who are often high income individuals, make site-location decisions for companies and thus have a major impact on all other employees and their families, including those that will not benefit from the Texas tax structure.⁷

OVERVIEW OF TAX EXEMPTIONS IN LOUISIANA

The State of Louisiana's tax laws authorize 468 tax exemptions (as of the 2011-2012 version of LDR's TEB), 25 of which are authorized by the State's Constitution or are required to comply with federal law prohibiting taxation.

Purpose of Tax Exemptions

Tax exemptions in Louisiana have a wide variety of policy goals and generally function to reduce tax burden. These goals range from generating business activity that will create future new tax revenue to driving specific consumer behavior and job creation. Not all tax exemptions were created by the Legislature to result in a net financial benefit to the State. For example, the prohibition of sales tax on *Sales of food for preparation and consumption in the home* was created to provide financial relief primarily for low-income individuals and families. Tax exemptions benefit both businesses and individual taxpayers and are present in all of Louisiana's major taxes.

Tax Exemptions Defined

An item generally is considered a tax exemption if the tax revenue associated with that item is reduced due to a specific constitutional, statutory, or federal provision. Section 1517 of Title 47 of the Louisiana Revised Statutes defines what a tax exemption is for the purposes of the annual TEB, which describes and quantifies all tax exemptions. "Tax exemption" refers to provisions of state tax statutes that allow a special exclusion, exemption, or deduction from gross income or sales, or provide a special credit, preferential rate of tax, or deferral of tax liability.

⁶ Tax Foundation, The facts on Louisiana's Tax Climate, n.d.

⁷ KPMG, *State of Louisiana: Department of Economic Development Cost of Living Tax Analysis*, March 2011

Tax exemptions can take several forms. The primary difference between the various classes of exemptions is the mechanism used to reduce taxes paid, encourage certain behaviors or activities, and/or attain specific policy goals. The most common tax exemption classes (i.e., those representing nearly 85 percent of all exemptions in Louisiana) fall into the following categories:

- An exemption is a mechanism that prevents taxation on an item or class of items that would normally be taxed under the law.
- An exclusion is the absence of taxation on an item or class of items. However, Louisiana law often conflates the term “exclusion” with “exemption,” such that the former may be used to describe a mechanism that might be better characterized as the latter.
- A deduction is a reduction of the income subject to tax, which reduces a taxpayer’s liability.
- A tax credit reduces the tax bill directly, dollar for dollar, as opposed to reducing taxable income. The taxpayer subtracts the credit amount from the tax due, and pays only the net tax due. Tax credits can be *non-refundable* or *refundable*. Both *non-refundable* and *refundable* tax credits can be *transferable*.
 - A *non-refundable* tax credit reduces the income tax liability and, if allowed by the statute authorizing the credit, any remaining amount can be carried forward for use in future tax years. If the amount of credit is greater than the taxes owed, the excess will not generate a refund.
 - A *refundable* tax credit reduces the income tax liability, with any excess credit amount being refunded to the taxpayer.
 - A *transferable* credit can either be used by the taxpayer who earns the credit or can be sold or transferred to a third party for a price that may be below the face value of the credit. It can be refundable or non-refundable.

The remaining exemption types represent a collection of suspensions, special rates, alternate reporting methods, statutorily prescribed methods of taxation, refunds, rebates, prohibitions on taxation, incentives, and discounts.

Throughout this document, the value of exemptions is shown as the estimated amount by which they reduced tax revenues (e.g., the value of an income tax deduction is shown as its impact on net tax revenues, not the gross value of the deduction, whereas the actual dollar value of the tax credits claimed are reported), not accounting for indirect effects. The indirect/induced effects that are associated with exemptions (e.g., new tax revenue associated with jobs attracted in part by an economic development incentive) are not included in this document due to the complexity involved with developing such estimates for hundreds of different exemptions. Because indirect effects are excluded from this report, the net fiscal cost of some tax exemptions, including indirect and induced effects, is potentially less than the values presented herein.

Louisiana’s Tax Exemption Budget

LDR began publishing the Tax Exemption Budget annually in 1983 under Title 37, Section 60. Currently, LDR is required by Section 1517 of Title 47 to prepare the annual TEB report, which quantifies and catalogs all tax exemptions that have been enacted in statute, as well as those provided for by the Constitution of the State of Louisiana and by federal law. The TEB provides general information on each tax exemption: legal citations, brief descriptions of purpose of each exemption, legislative origins, effective dates, beneficiaries, administration, and estimated fiscal effects for the preceding two years, current year, and two ensuing fiscal years.

When possible, estimates in the TEB of the values of tax exemptions are developed from information contained on Louisiana tax returns, which is the most reliable source for data. In many cases, however, the necessary information is neither reflected on tax returns nor is the data explicitly captured. For some of these tax exemptions, alternative sources were used (e.g.,

information from specific taxpayers, estimates from Louisiana Legislative Fiscal Office). When no reliable data source is available or the item is considered negligible (under \$10,000), there is a notation in the TEB report.

Louisiana's Tax Exemption Budget Compared to Those of Other States

Forty-four states (including the District of Columbia) produce reports that provide policymakers and the public with data on the value of exemptions (tax credits, deductions, and exemptions).⁸ Louisiana publishes one of the more comprehensive, publicly available reports in the Southern region in terms of frequency and breadth, providing annual reports to the Governor and Legislature on every exemption in statute, and providing fiscal impact estimates for a five-year period. Many other states publish reports much less frequently (every two to five years). Among the Southern states, Alabama does not publish a report; South Carolina does not publish a report online; many only include data for the current fiscal year (e.g., Arkansas, Mississippi, Oklahoma); and many do not include data on collections and exemptions for all major tax types (e.g., Arkansas, Virginia, South Carolina).⁹

Summary of Tax Exemptions in Louisiana by Type

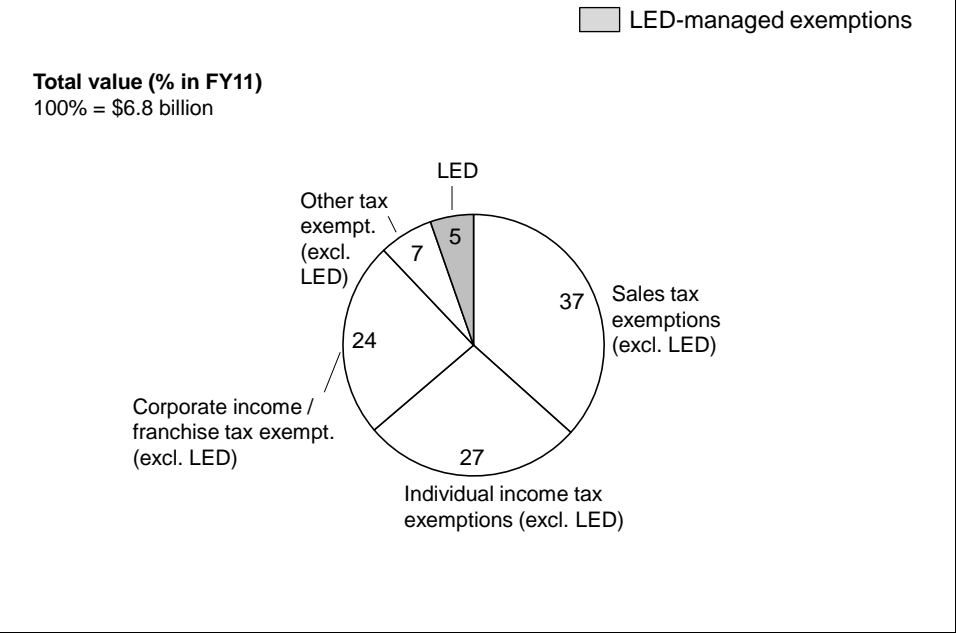
There were a total of 468 exemptions reported in the 2011-12 Louisiana TEB report. The total number of exemptions can fluctuate from year to year, as some exemptions expire or are added over time. This total includes all statutory, constitutional, and federal exemptions. Most of the exemptions that can be applied to multiple tax types are counted in each tax type to which they are applied. However, the 25 exemptions in the "Incentives and Exemption Contracts" section of the TEB are only counted once even though many of the items in that section can be applied to multiple tax types.

In FY11, the total value of tax exemptions in Louisiana was approximately \$6.8 billion (rounded) across all tax types. This total includes \$4.8 billion in statutory exemptions and \$1.9 billion in state constitutional exemptions, and excludes \$0.2 billion in federally mandated exemptions. Of the existing 468 tax exemptions in Louisiana, just 25 exemptions represented nearly 80 percent of the \$6.8 billion total in FY11. Appendix C lists the top 25 state tax exemptions in Louisiana for FY11 by value.

⁸ Center for Budget and Policy Priorities, *Promoting State Budget Accountability through Tax Expenditure Reporting*, May 2011

⁹ Center for Budget and Policy Priorities, *Promoting State Budget Accountability through Tax Expenditure Reporting*, May 2011

ALL TAX EXEMPTIONS IN LOUISIANA TOTALED \$6.8 BILLION IN FY11



SALES TAX

Louisiana is one of 45 states that levies a sales tax.¹⁰ Louisiana’s state sales tax is applied to retail sales of tangible personal property, rental or lease of movable property, and sales of selected services. Consumers pay the sales tax on the price of a good (and select services) at the point of sale, and the sales tax is remitted to LDR by a seller that qualifies under Louisiana law as a “dealer.” Businesses with a physical presence (e.g., offices, branches, warehouses, employees) have established a nexus and are responsible for the collection and remittance of state and local sales tax. In some instances, goods are purchased outside of Louisiana and brought into the State. If the purchased item is used in Louisiana, consumers should pay a use tax if sales tax was not paid in the state where the purchase was made or if the item was purchased on the internet and sales tax was not paid.

Louisiana law authorizes sales and use tax at two levels: at the state level and at the local government level. Thirty-three states authorize the use of local-option sales taxes at the local level.¹¹ Louisiana political subdivisions have the authority, per the Louisiana Constitution, to levy and collect their own sales and use taxes. While political subdivisions have the authority to levy sales tax, the rates can vary, but are limited by the Constitution to 3 percent. An increase beyond 3 percent requires legislative approval and a vote of the people. Further complicating the system for taxpayers is that there are deviations between the state taxable base and the local taxable base, as well as differences in interpretation of tax law by local and state collectors. Deviations by political subdivisions from the state tax base must be approved by the Legislature. When filing a tax return, a business that operates in a number of different parishes would have to know the rates within the various parishes and local sales tax jurisdictions (there are 493 sales tax jurisdictions¹²), as well as understand the deviations between the state and local tax bases, and then properly calculate the tax liability and remit it separately to each parish and the state. For example, a business with more than one location in every parish would

¹⁰ Tax Foundation, *State Business Tax Climate Index*, 2012

¹¹ Tax Foundation, *State Business Tax Climate Index*, 2012

¹² Louisiana Department of Public Safety, *Parish & Municipal Sales Tax Disbursement Codes*, July 2012

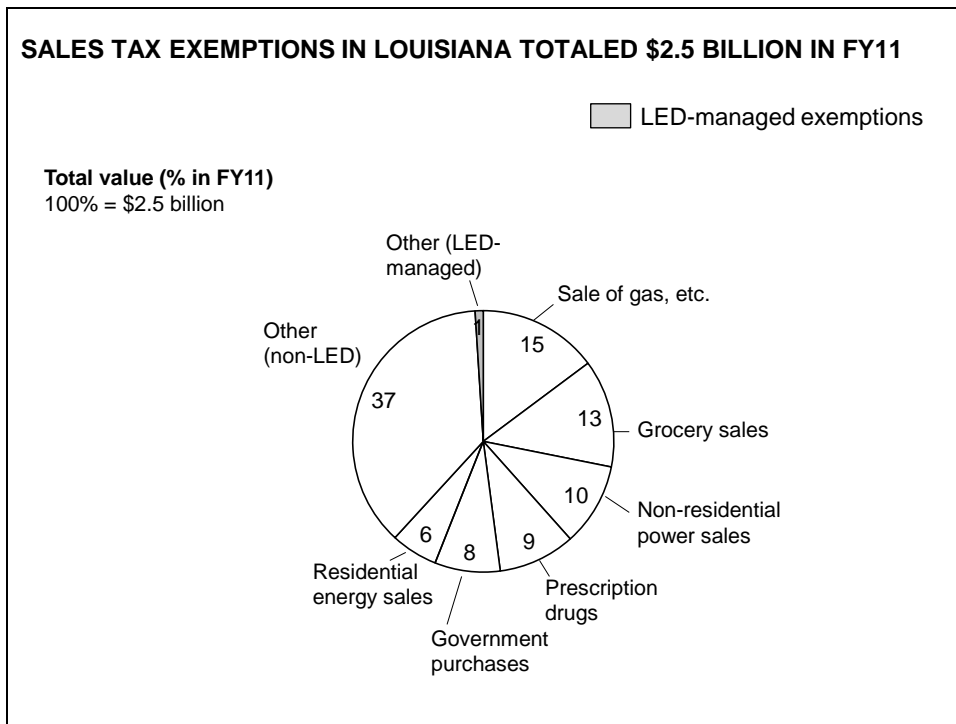
potentially need to file a separate return for each location in each parish and a state return for each location.

The Tax Foundation ranks Louisiana’s sales tax structure 49th among all U.S. states, with the top spots going to states without a general sales tax. While the state sales tax of 4 percent is relatively low compared to most states, the average local option sales tax is 4.85 percent, the highest in the nation. Louisiana has the third highest combined state and local option sales tax (8.85 percent) in the country.¹³

Businesses with locations in multiple parishes must not only calculate and remit the state sales tax, but must do so for the local sales tax in each parish in which the company operates. This unique structure affects Louisiana’s business competitiveness rankings and is a top complaint by many small business owners. In 2008, LDR created the State’s Parish E-File system, a free web application, which helps reduce the time, effort, and paperwork involved in collecting and remitting taxes for those who participate; however, along with the state tax return, a business still must submit a separate tax return for each location of the business in the parishes in which it operates.

Sales Tax Exemptions

There are 191 sales tax exemptions in Louisiana. In FY11, sales tax exemptions totaled approximately \$2.5 billion. Appendix D lists sales tax exemptions in the State of Louisiana for FY11 by value.



Top Sales Tax Exemptions in FY11

The largest exemptions from state sales tax, ranked by value in FY11, are summarized below.

¹³ Tax Foundation, *State Business Tax Climate Index*, 2012

Sales of Gasoline, Gasohol, and Diesel

Effective in 1990, the Louisiana Constitution prohibits sales and use taxes on purchases of gasoline, diesel fuel, or special fuels that are subject to excise taxes. This exemption applies at both the state and local levels. Only the state portion is included in the TEB. The purpose of the exemption is to avoid double taxation on road use gasoline and gasohol. While Louisiana is one of 45 states that exempts gasoline from its sales tax base, the State levies a separate excise tax on gasoline and diesel, as do all other states.¹⁴ Generally speaking, an excise tax is different from a sales tax in that it is applied on a per unit basis instead of as a percentage of the purchase price. For FY11, this exemption totaled \$371 million.

Sales of Food for Preparation and Consumption in the Home

Louisiana is one of 36 states that excludes groceries from the sales tax base.¹⁵ The Louisiana Constitution prohibits the taxation of food sold for preparation and consumption in the home. A constitutional amendment was passed on November 5, 2002, with the full exclusion effective July 1, 2003. The purpose of this prohibition is to provide financial relief to the general public on food purchases. For FY11, this exemption totaled \$334 million.

Sales of Electric Power or Energy – Non-residential

Enacted in 1948 and last amended in 2008, this exemption allows the tax-free sale of electric power or energy and any materials or energy sources used to fuel the generation of electric power for resale or used by an industrial manufacturing plant for self-consumption or cogeneration. Louisiana is one of 30 states that exempts utilities for business-to-business transactions from their tax base.¹⁶ The sale of electricity for residential use is constitutionally protected from taxation. This exemption benefits the non-residential users of electrical utility services. For FY11, this exemption totaled \$257 million.

Drugs Prescribed by Physicians or Dentists

This exemption, which prohibits the taxation of pharmaceuticals and medical devices prescribed for use in the treatment of any medical disease, was fully enacted by 1974. A state constitutional amendment, which further protected the exemption, became effective in 2003. The purpose of this prohibition is to provide financial assistance to consumers of prescription drugs and medical devices. Parishes and political subdivisions, however, still may tax pharmaceuticals and medical devices. Every state with a sales tax exempts prescription drugs from its tax base or levies a reduced sales tax rate on prescription drug purchases.¹⁷ For FY11, this exemption totaled \$239 million.

Purchases by State and Local Governments

Enacted in 1991 and amended in 2007, this exclusion allows all boards, agencies, or commissions of the State of Louisiana or any local authority within Louisiana to purchase or rent/lease tangible personal property, or receive services, without being subject to general sales tax. The purpose of this exclusion is to remove governmental authorities from taxation. All but nine states exempt sales to state and local governments.¹⁸ All sales to the federal government are exempt through a U.S. constitutional prohibition. For FY11, this exemption totaled \$203 million.

¹⁴ Tax Foundation, *State Business Tax Climate Index*, 2012

¹⁵ Tax Foundation, *State Business Tax Climate Index*, 2012

¹⁶ Tax Foundation, *State Business Tax Climate Index*, 2012

¹⁷ Tax Foundation, *State Business Tax Climate Index*, 2012 and Federation of Tax Administrators, *State Sales Tax Rates and Food and Drug Exemptions*, January 2012

¹⁸ Healy, John C. and Schadewald, Michael S. 2012 *Multistate Corporate Tax Guide*, Volume II. Chicago: CCH, 2011

Sales of Electric Power or Energy – Residential Use

This exemption, which prohibits the taxation of natural gas, electricity, and water sold directly to the consumer for residential use, was enacted in 1948. A state constitutional amendment, further protecting the exemption, became effective in 2003. Its purpose is to provide financial assistance to residential consumers of electrical utility services. Fifteen states that impose a sales tax do not tax the sales of electric power or energy for residential use. In FY11, this exemption totaled \$146 million.

INDIVIDUAL INCOME TAX

Louisiana is one of 43 states that levies an individual income tax.¹⁹ The tax is assessed on a resident individual's income derived from all sources and a nonresident individual's income derived from Louisiana sources. Like the majority of other states that impose an individual income tax, Louisiana closely follows the federal system, utilizing the federal definition of income and deductions. Louisiana taxable income is defined as federal adjusted gross income, less miscellaneous deductions (e.g., excess itemized deductions and federal income taxes paid). Louisiana does not allow for the collection of municipal- and parish-level income taxes, which would add to the complexity of the tax structure.

The Tax Foundation ranks Louisiana's individual income tax structure 24th compared to other states, with its highest rankings reserved for states that do not impose the tax or that have a flat tax. In Louisiana, the individual income tax system consists of three separate brackets (2, 4, and 6 percent). The top rate begins at an income level of \$50,000 (single, head of household, or married filing separately) and \$100,000 (married filing joint, and widow). Louisiana's top rate ranks 21st highest nationally, with one being highest. The Tax Foundation's methodology places a great deal of weight on a state's top marginal rate and does not consider the effect of exemptions in reducing the effective rate. Although the state's top marginal rate is 6 percent, Louisiana taxpayers actually pay closer to an average effective rate of 2.3 percent. This is due in large part to the federal income tax deduction and various other exemptions that have the effect of lowering the tax burden for families, small business, and retirees.

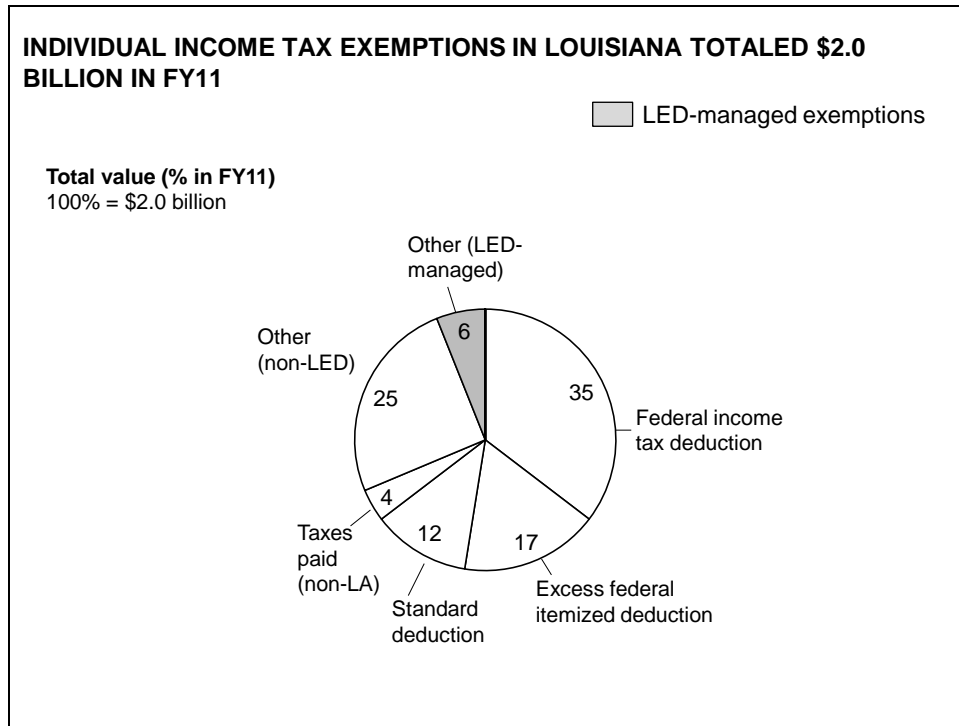
The Importance of the Individual Income Tax for Business

The individual income tax is important to Louisiana's business climate because many unincorporated businesses, including sole proprietorships, partnerships, and some Limited Liability Companies (LLC), report their income through the individual income tax return. In the case of an LLC, this business type is treated and taxed in the same manner for Louisiana income tax purposes as it is for federal income tax purposes. If the LLC is considered a partnership for federal income tax purposes, which is the more common situation, the LLC is treated as a partnership for Louisiana income tax purposes, and the income is reported on the individual income tax return. A portion of the income of corporations classified as S corporations under Subchapter S of the Internal Revenue Code ("S corporation") is reported through the individual income tax return as well.

¹⁹ Tax Foundation, *State Business Tax Climate Index*, 2012

Individual Income Tax Exemptions

There are 78 individual income tax exemptions in Louisiana. In FY11, individual income tax exemptions totaled nearly \$2.0 billion. Appendix E lists all individual income tax exemptions in the State of Louisiana for FY11 by value.



Top Individual Income Tax Exemptions in FY11

The largest exemptions from individual income tax, ranked by value in FY11, are summarized below.

Federal Income Tax Deduction

Enacted in 1974 and protected from taxation by the Constitution, Louisiana's federal income tax deduction was designed to avoid double taxation by not taxing the portion of the taxpayer's income that represents federal income taxes paid. Of the 44 states, including the District of Columbia, that levy an individual income tax, only six (Alabama, Iowa, Louisiana, Missouri, Montana, and Oregon) allow a deduction from income for federal income taxes paid.²⁰

Generally, there is a correlation between this exemption and high marginal state individual income tax rates; in other words, states with this exemption tend to have higher state income tax rates. For FY11, this exemption totaled \$690 million for IIT. The *Federal Income Tax Deduction* can also be claimed under corporate income tax, and totaled \$151 million in FY11. This results in an overall total of \$840 million.

Excess Federal Itemized Deduction

In addition to utilizing the *Federal Income Tax Deduction*, taxpayers who itemize their federal deductions are also allowed to deduct 100 percent of the portion of federal itemized deductions that are in excess of the federal standard deduction. This provision was enacted in 1980 and last amended in 2007. Only Alabama, Louisiana, and Iowa allow a deduction for the *full* amount of federal income taxes paid, while other states place a cap on the deduction. Similar to the

²⁰ Institute on Taxation and Economic Policy, *State Income Tax Deductions for Federal Income Taxes Turn Tax Fairness on its Head*, March 2011

Federal Income Tax Deduction, there is a correlation between this exemption and high state income tax rates. For FY11, this exemption totaled \$332 million.

Individual Exemption/Standard Deduction

Enacted in 1934, this provision allows taxpayers to exempt a standard portion of income from state income tax. All states with an individual income tax, with the exception of Pennsylvania, allow some form of individual exemption or standard deduction.²¹ For FY11, this exemption totaled \$244 million.

Net Income Taxes Paid to Other States

All states but New Hampshire allow a credit for income tax paid to other states.²² Enacted in 1946, this provision allows Louisiana taxpayers a dollar-for-dollar credit for income taxes paid to other states. Many states only allow a proportionate credit, meaning that the credit is only applied to the tax liability that results from income that is subject to tax by both states. Louisiana does not have such a limit. For example, if a Louisiana resident is taxed in another state on \$100,000 at 10 percent, a \$10,000 credit would be allowed against all Louisiana tax liability even though the Louisiana tax on the \$100,000 at 4 percent would only be \$4,000. This prevents Louisiana taxpayers from being subject to double taxation, but because the credit is not proportionate to the income subject to tax in both states, in some cases, taxpayers are able to apply this credit towards Louisiana tax liability on income that would not be subject to double taxation. For FY11, this exemption totaled \$82 million.

Social Security Benefits Exclusion

Louisiana is one of 26 states with income taxes that provide a full exclusion for Social Security benefits.²³ Enacted in 1984, this provision allows Social Security beneficiaries to fully exclude their Social Security income from state taxable income, in order to reduce their tax burden. Louisiana is one of nine states that exempts all federal, state, and local government pensions as well as all Social Security benefits from income tax.²⁴ For FY11, this exemption totaled \$67 million.

State Employees, Teachers and Other Retirement Benefits Exclusion

First enacted in 1946 and amended in subsequent years, this provision allows individuals receiving benefits from certain state, state-wide, and local government retirement systems to fully exclude those benefits from state taxable income. In total, the benefits from 49 public retirement systems across the State are excluded from taxable income. For FY11, this exemption totaled \$67 million.

Annual Retirement Benefits Exclusion

Louisiana allows an exclusion for income from private retirement plans as well. This provision allows individuals 65 or older receiving income from private retirement plans (e.g., 401Ks, IRAs) to exclude up to \$6,000 of annual retirement income. The purpose of this exclusion is to reduce the tax burden for persons 65 years or older. For FY11, this exemption totaled \$18 million.

Credit for LA Citizens Property Insurance Corporation

Enacted in 2006 and amended in 2007, this refundable credit is allowed on the amount of surcharges, market equalization charges, or assessments paid as a result of the assessments

²¹ Tax Foundation, *State Business Tax Climate Index*, 2012

²² Tax Foundation, *State Business Tax Climate Index*, 2012

²³ National Conference of State Legislatures, *State personal income taxes on pensions and retirement income: Tax year 2010*, February 2011.

²⁴ National Conference of State Legislatures, *State personal income taxes on pensions and retirement income: Tax year 2010*, February 2011.

levied by the Louisiana Citizens Property Insurance Corporation due to Hurricanes Katrina and Rita. This credit is available to taxpayers who paid the assessments as a part of their homeowner's insurance premium. For FY11, this exemption totaled \$47 million for IIT. The *Credit for LA Citizens Property Insurance Corporation* can also be claimed under CIFT, and totaled \$7 million in FY11. This results in an overall total of \$54 million in FY11.

Earned Income Tax Credit

Enacted in 2007 and effective starting in 2008, Louisiana allows a refundable credit for residents who are eligible for the federal earned income tax credit. The credit is provided for working residents with low- to moderate-incomes. It is equal to 3.5 percent of the federal earned income tax credit taken on a resident's federal income tax return. Twenty-five states, including Louisiana, have earned income tax credits. All states except Minnesota set their credits based on the federal credit. Like the federal government, states require workers to file a tax return, and in 22 of the states, including Louisiana, credits are fully refundable if they are greater than the taxes owed. For FY11, this exemption totaled \$46 million.

New Markets Tax Credit

Enacted in 2002 and last amended in 2009, the *New Markets Tax Credit* was designed to increase access to capital in certain disadvantaged areas of the State. The credit was created after the U.S. Congress established the New Markets Tax Credit Program in 2000. The federal program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). To qualify as a CDE, an organization must serve a low-income community and allow its low-income constituents to serve on its governing or advisory board.

If an entity is considered a CDE for federal purposes, it can apply with LDR for Louisiana New Market Tax Credits. As with the federal program, the Louisiana credit allows individual and corporate investors to receive a tax credit against their Louisiana tax liability in exchange for making equity investments in CDEs. Investors are eligible for the tax credit if the CDE has made qualified low-income community investments and no more than 25 percent of their investments in low-income communities are in the form of loans. The amount of the credit is 25 percent of the purchase price of the equity investment. Louisiana law caps the total amount of credit available annually through the program and credits are awarded in the order in which the credit application was received. The tax credits are transferable and can be carried forward for 10 years. For FY11, this exemption totaled \$17 million for IIT. The *New Markets Tax Credit* can also be claimed under corporate income tax, and totaled \$16 million in FY11. This results in an overall total of \$33 million.

CORPORATE INCOME AND FRANCHISE TAX

Louisiana is one of 19 states with both a corporate income and franchise tax. Three states allow a company to pay the highest of the income or franchise tax, rather than paying both.²⁵

Corporate Income Tax

Louisiana is one of 47 states with a corporate income tax.²⁶ As in most other states, Louisiana employs the federal definition of income and deductions, with certain modifications.²⁷ As with its individual income tax, Louisiana allows a deduction from corporate income for federal income taxes paid. Nationally, revenue from state corporate income taxes has by far been the most

²⁵ Tax Foundation, *State Business Tax Climate Index*, 2012

²⁶ Tax Foundation, *State Business Tax Climate Index*, 2012

²⁷ Tax Foundation, *State Business Tax Climate Index*, 2012

volatile of tax sources over the last decade, largely because corporate incomes are highly dependent on the health of the economy.²⁸ Not only are corporate profits subject to the corporate income tax, but investment earnings (dividends) paid to individuals are then taxed again under the individual income tax.

The Tax Foundation ranks Louisiana's corporate income tax structure 17th among all U.S. states, with the highest rankings reserved for states that do not impose a corporate income tax.²⁹ Louisiana's corporate tax structure consists of five brackets (4, 5, 6, 7, and 8 percent) with the top rate beginning at a corporate income level of \$200,000. Louisiana is one of 15 states with multiple corporate tax brackets, a structure that can create changes in behavior when the taxpayer's income reaches the end of one tax rate bracket and moves into a higher bracket. The average number of brackets in these states is four, while Louisiana has five. Businesses frequently look at the top marginal rate as an indication of a state's business tax burden and may overlook unusual features (such as Louisiana's deduction for federal income taxes paid) that actually lower the effective tax rate. As observed in individual income tax, the effective rate paid by taxpayers is lower than 8 percent due to exemptions and deductions. Eighty-three percent of all corporate filers in Louisiana report a negative or zero tax liability and only 2 percent of all corporate filers pay at the top rate, but Louisiana's top rate is the 18th highest in the nation.³⁰

Corporate Franchise Tax

The Louisiana corporate franchise tax was enacted in 1932, and has been amended many times. Twenty states levy a corporate franchise tax.³¹ In Louisiana, this is in addition to corporate income tax, which is a separate tax type. Both are reported together on the same tax return. Corporate franchise tax, sometimes called capital stock tax, is levied on the larger of the assessed value of all real and personal property in the State or the amount of issued and outstanding capital stock, surplus, and undivided profits attributable to Louisiana. In most cases the amount of issued outstanding capital stock, surplus, and undivided profits is the higher of the two and is consequently the amount taxed. This tax is paid by both domestic and foreign corporations, but some specific types of corporations are totally exempt from the franchise tax. Unlike the corporate income tax, which taxes profits, CFT taxes amounts invested in the business and accumulated profits that have not been distributed (dividends). In general, as a business grows in net assets (assets minus liabilities) the corporate franchise tax increases; and vice versa. The tax is currently assessed on the taxable base at the rate of \$1.50 per \$1,000 on the first \$300,000 and \$3.00 per \$1,000 over \$300,000. Legislation was passed to phase out the franchise tax on borrowed capital (i.e., debt), with full phase out in FY11; the tax, therefore, is now only levied on owned capital. Eight states place a cap on the maximum corporate franchise tax payment. Louisiana does not.

It is not possible to provide estimated fiscal effects for all exemptions and credits that may be applied to the corporate franchise tax. In some cases, there is no reporting requirement for the data. In other cases, a credit or exemption may be applied against the aggregate tax liability for corporate income and corporate franchise combined.

²⁸ Tax Foundation, *State Business Tax Climate Index*, 2012

²⁹ Tax Foundation, *State Business Tax Climate Index*, 2012

³⁰ Tax Foundation, *State Business Tax Climate Index*, 2012

³¹ Tax Foundation, *State Business Tax Climate Index*, 2012

Other Issues

Apportionment

States use apportionment systems that seek to determine how much of a company's income a state can properly tax. Generally, states require a company with "nexus," which is sufficient connection to the state to justify the state's power to tax its income, to apportion its income to the state based on some ratio of the company's in-state property, payroll, and sales compared to its total property, payroll and sales.

Among the 50 states, there is little harmony in apportionment formulas. Many states weight the three factors—property, payroll, and sales—equally while others weight the sales factor more heavily; some states now utilize apportionment based exclusively on sales. In the case of single-sales factor apportionment, businesses would determine their state income taxes based only on the ratio of in-state sales to sales everywhere. This approach provides favorable tax conditions for businesses that export their products and services outside the state and, in contrast to multi-factor apportionment formulas, avoids a tax penalty for exporters that locate their operations (e.g., payroll, property) within the state. For businesses with in-state activity only, there is no effective difference between single-sales and multi-factor apportionment. For multi-state corporations, Louisiana net income is generally determined through formula apportionment. Under the formula apportionment method, total net income is typically apportioned to Louisiana based on the average of the three factors.

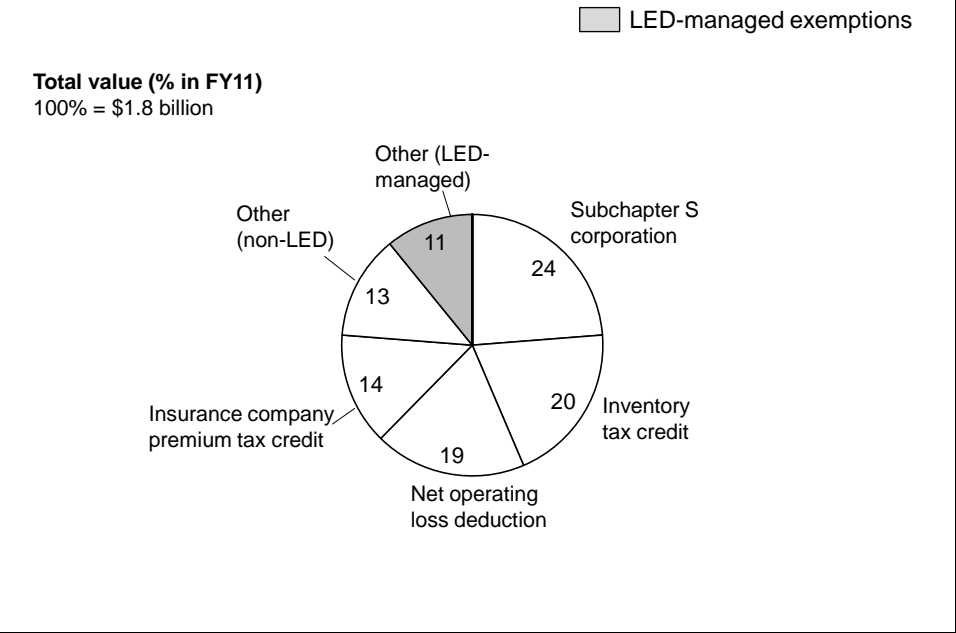
LLC Treatment

An LLC is treated and taxed in the same manner for Louisiana income tax purposes as it is treated and taxed for federal income tax purposes. If the LLC is taxed as a corporation for federal income tax purposes, the LLC will be taxed as a corporation for Louisiana income tax purposes. An LLC is never considered to be a corporation for franchise tax purposes, and therefore is not subject to Louisiana corporate franchise tax.

Corporate Income and Franchise Tax Exemptions

There are 97 exemptions for corporate income and franchise taxes in Louisiana. In FY11, CIFT exemptions totaled approximately \$1.8 billion. Appendix F lists all CIFT exemptions in the State of Louisiana for FY11 by value.

**CORPORATE INCOME AND FRANCHISE TAX EXEMPTIONS IN LOUISIANA
TOTALED \$1.8 BILLION IN FY11**



Top Corporate Income and Franchise Tax Exemptions in FY11

The largest exemptions from corporate income and franchise tax, ranked by value in FY11, are summarized below.

Subchapter S Corporation Exemption/Exclusion

Louisiana is one of five states that does not recognize the existence of corporations classified as S corporations under Subchapter S of the Internal Revenue Code (IRS). At the federal level, unlike C corporations, the IRS allows an S corporation to "pass through" its income to its shareholders, and the profits of these entities are taxed under the individual income tax code. In Louisiana, S corporations are taxed in the same manner as C corporations, with one exception. In order to avoid double taxation, Louisiana enacted in 1989, and amended in 2002, the Subchapter S Corporation Exemption/Exclusion, which allows corporations classified as S corporations to exclude a percentage of their Louisiana net income to arrive at taxable income. The excludable percentage is determined by the ratio of the number of issued and outstanding shares of the S corporation's capital stock owned by Louisiana resident individuals to total number of issues and outstanding shares of capital stock. For FY11, this exemption totaled \$435 million.

Inventory Tax Credit

Enacted in 1991, and amended in 1994, 2002, and 2005, the inventory tax credit is a refundable credit that benefits all corporations and unincorporated businesses that pay ad valorem taxes to political subdivisions on inventory held by manufacturers, distributors, and retailers. It is a property tax on inventory that is classified as an ad valorem tax, which is a tax levy that is apportioned among taxpayers according to the value of each taxpayer's property. Fourteen states, including Louisiana, levy some form of inventory tax,³² the existence of which can create incentives for companies to locate inventory in states where they can avoid these taxes. Although businesses are allowed a refundable tax credit from the State for the full amount of

³² Tax Foundation, *State Business Tax Climate Index*, 2012

inventory taxes paid to local governments, Louisiana is still negatively affected in some business climate rankings due to the presence of the inventory tax.³³

The inventory tax is levied by and paid to local parish entities. Business owners pay local entities directly, and then claim 100 percent of the tax paid on their state return as a credit. The credit is then applied to a company's state tax liability. If the inventory taxes paid to the local authorities exceed the company's state income and franchise tax liabilities, the company receives the balance as a refund from the State. Thus, as local inventory tax revenue increases, state revenue decreases, as a direct result of the credit. For FY11, this exemption totaled \$362 million for CIFT. The *Inventory Tax Credit* can also be claimed under individual income tax, and totaled \$12 million in FY11. This results in an overall total of \$374 million in FY11.

Net Louisiana Operating Loss

Net operating loss (NOL) is a smoothing mechanism that recognizes that a yearly profit snapshot may not fully capture a corporation's true profitability. NOL preserves the purpose of the corporate income tax, which is to tax the profits, not the losses, of a corporation. Enacted in 1979, the NOL deduction helps level the playing field among cyclical and non-cyclical industries and helps to ensure that the corporate income tax is a tax on average profitability. The federal NOL deduction currently allows a two-year carry-back cap and a 20-year carry-forward cap, and Louisiana allows corporations to carry an NOL deduction back for three years and forward for 15 years. All states with a corporate income tax allow some degree of carry-forward and carry-back, although the number of years for which the NOL can apply, and the amount of the cap, if any, varies from state to state.³⁴ For FY11, this exemption totaled \$343 million.

Insurance Company Premium Tax Credit

Enacted in 1934, the insurance company premium tax credit, administered by LDR (which is different than the investment tax credit applied to premium taxes paid by insurance companies to the Department of Insurance), allows a 100 percent offset for premium taxes paid by all insurance companies to the Department of Insurance. The premium tax credit is applied to the insurance companies' Louisiana corporate income tax, reducing their corporate tax liability. This is a non-refundable credit, so the amount of the tax credit that can be claimed is limited to a company's corporate tax liability. Any unused amounts cannot be claimed as a refund or carried forward. Twenty-five states, including Louisiana, tax or charge a fee as a percentage of premiums. For FY11, this exemption totaled \$249 million.

Federal Income Tax Deduction

Enacted in 1974 and protected from taxation by the Louisiana Constitution, Louisiana's corporate federal income tax deduction was designed to avoid double taxation by not taxing the portion of the taxpayer's income that represents federal income taxes paid. Only two other states allow a full deduction for federal corporate income tax paid.³⁵ In FY11, this exemption totaled \$151 million for CIFT. The *Federal Income Tax Deduction* can also be claimed under individual income tax, and totaled \$690 million in FY11. This results in an overall total of \$840 million.

³³ Tax Foundation, *State Business Tax Climate Index*, 2012

³⁴ Tax Foundation, *State Business Tax Climate Index*, 2012

³⁵ Federation of Tax Administrators, *Range of Corporate Income Tax Rates*, January 2012.

SEVERENCE TAX – NATURAL RESOURCES

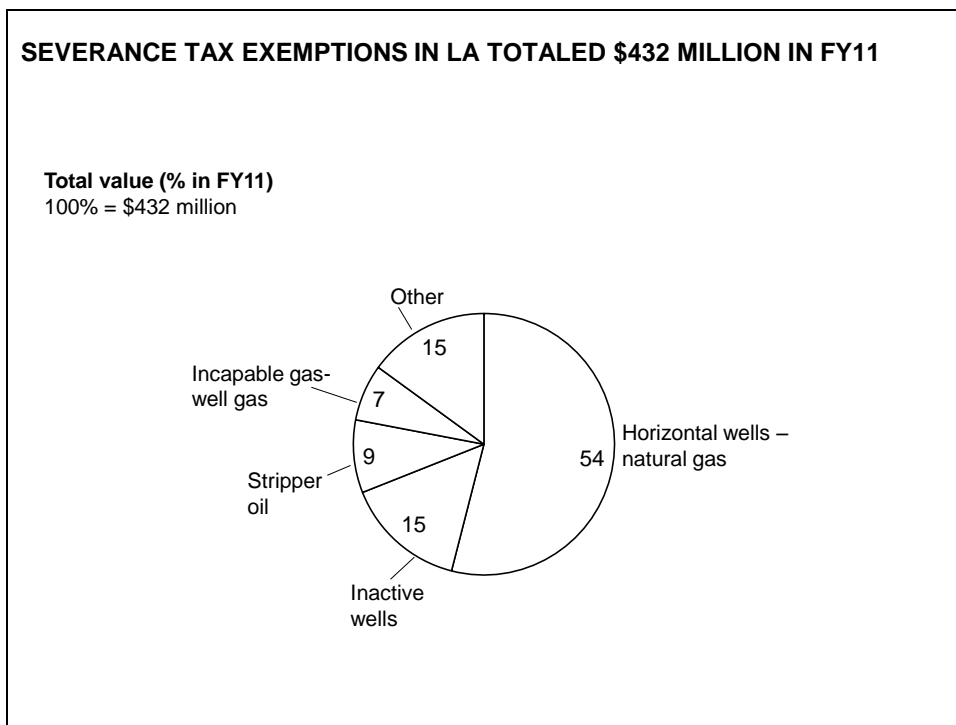
Severance Tax

Severance tax is levied upon all natural resources severed from the soil or water, including all forms of timber, pulp woods, turpentine, and other forest products; minerals such as oil, gas, natural gasoline, distillate, condensate, casing head gasoline, sulphur, salt, coal, lignite, and ores; materials such as marble, stone, gravel, sand, shells, and other natural deposits; and the salt content in brine. It is paid by the natural resource owners. Because oil and gas collections account for 98 percent of all severance tax collections and there is only one minor exemption that affects the other natural resources, this summary focuses on oil and gas taxes.

The oil severance tax rate is calculated as a percentage of the value severed, as well as the type of oil severed. The capable tax rate for oil and condensate is 12.5 percent of value and accounts for over 96 percent of the oil and condensate tax collections. There is also an incapable rate and a stripper rate for low-producing oil wells. The gas severance tax rate is calculated on the quantity of gas severed, as well as the type of gas severed. The capable rate for gas, presently 14.8 cents per MCF (rate valid from July 1, 2012 through June 30, 2013), is responsible for over 99 percent of total gas tax collections. There are also reduced tax rates for low-pressure oil-well gas and incapable gas-well gas.

Severance Tax Exemptions

There are 25 severance tax exemptions in Louisiana, and all but one relates to oil and gas. In FY11, severance tax exemptions totaled \$432 million. Appendix G lists all severance tax exemptions in the State for FY11 by value.



Top Severance Tax Exemptions in FY11

The largest severance tax exemptions in FY11 by value are summarized below.

Horizontal Wells – Natural Gas Suspensions

Enacted in 1994, this exemption encourages the drilling of horizontal wells for the production of natural gas. All severance tax is suspended for 24 months or until payout of the well is achieved, whichever comes first, on any well drilled or recompleted horizontally. When originally enacted, the intent was to provide incentives for an expensive, experimental technique for the production of natural gas. Since that time, however, technology used in this technique has matured and is known as hydraulic fracking. For FY11, this exemption totaled \$235 million.

Inactive Wells – Oil Suspensions

Enacted in 1994, and most recently amended in 2005, this exemption benefits oil producers with older, mature fields containing many inactive wells. Production from approved oil and gas wells is exempt from severance tax for a period of five years when the well is returned to service after being inactive for two or more years, or having 30 days or less of production during the past two years. This exemption was intended to keep oil wells open during low price periods. For FY11, this exemption totaled \$65 million.

Stripper Oil

Enacted in 1973, this exemption provides a reduced tax rate to encourage the continued production from stripper wells. Stripper wells are oil wells incapable of producing an average of more than 10 barrels of oil per day for the taxable month. For FY11, this exemption totaled \$39 million.

OTHER TAX EXEMPTIONS

The remaining Louisiana tax exemptions (after sales tax, IIT, CIFT, and severance tax) are found in six other tax types. These include taxes on petroleum products, tobacco, liquors/alcoholic beverages, inheritance, gifts, and miscellaneous taxes (public utilities and carriers, telecommunications, and hazardous waste disposal). There are 52 exemptions related to these taxes. Several of these taxes are being phased out, with the related exemptions being phased out as well. In FY11, these exemptions totaled approximately \$24 million. There are no LED-managed exemptions that apply to any of the tax types included in this section. Appendix H lists all of the “other” tax exemptions in the State of Louisiana for FY11 by value.

LED-MANAGED TAX EXEMPTIONS

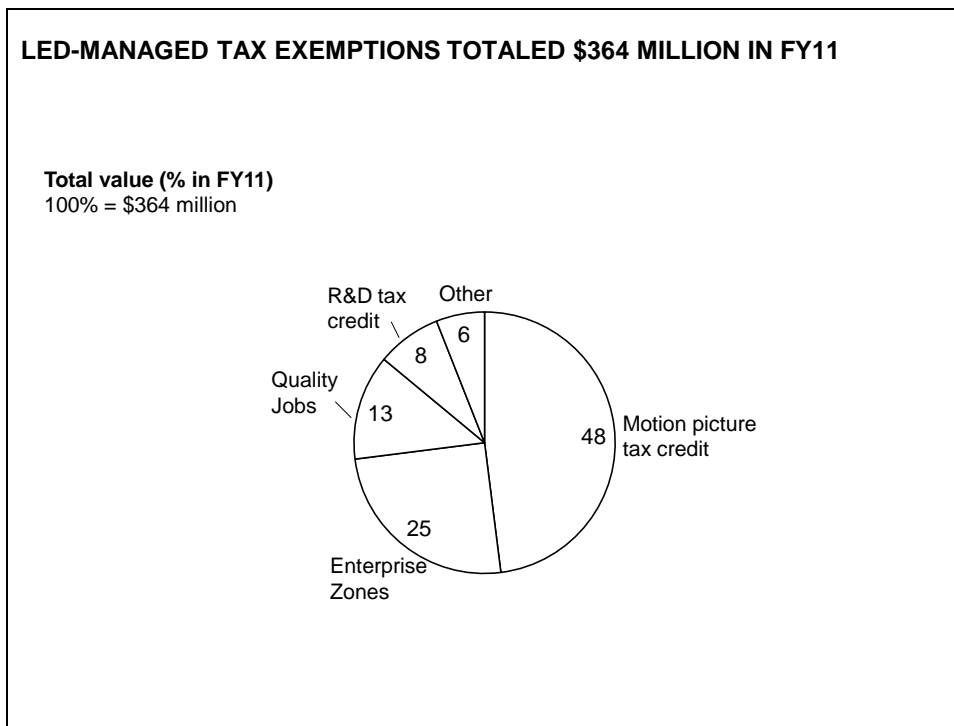
Economic development incentives are utilized by state and local governments in pursuit of a variety of outcomes, foremost among which is job creation. While the generation of tax revenue is sometimes an objective of incentives, incentives are also employed to create jobs; address cost disadvantages of investing or employing workers in a particular geographic area; revitalize distressed areas; encourage business activity that is considered especially beneficial for a state; and attract specific industries with the expectation of future growth or to diversify the economy.

Louisiana Economic Development manages 20 of the exemptions in the TEB. The State Board of Commerce and Industry also must review and approve applications for some incentive programs. Businesses are required to meet specific criteria to be eligible for tax exemptions and must continue to meet performance requirements to maintain the exemptions. Those requirements vary depending on the exemption and its intended purposes. In accordance with statutory requirements, LED files an annual report with the Governor and each member of the Legislature providing an overview of each business incentive and assistance program

administered by the department. This includes a brief description of each program's objective, annual activity, and performance information. As applicable, performance information includes the number of applications received, number of new projects, amount of associated certified spending in the State, number of new permanent jobs, number of construction jobs, number of retained permanent jobs, amount of associated capital investment, and amount of incentive awarded.

All LED-managed items are applied to the different tax types in accordance with the structure of the specific exemption. For example, certain portions of the *Motion Picture Tax Credit* can be applied to IIT or CIFT. Thus, the totals for LED-managed exemptions are included in the totals for sales tax, IIT, and CIFT. Also, the following five economic development exemptions included under "Tax Incentives and Exemptions Contracts" in the TEB are primarily managed by other entities; thus, they are not included in any total related to LED in this primer: *Atchafalaya Trace Heritage Area Development Zone Tax Exemption*, *Brownfields Investor Tax Credit*, *Cane River Heritage Tax Credit*, *Louisiana Capital Companies Tax Credit program*, and *New Markets Tax Credit*.

LED-managed exemptions totaled \$364 million and accounted for 5 percent of all exemptions in Louisiana in FY11. Appendix I lists all LED-managed exemptions in the State of Louisiana for FY11 by value.



Top LED-managed Exemptions in FY11

The largest LED-managed exemptions, ranked by value in FY11, are summarized below.

Motion Picture Investor Tax Credit

Louisiana's program became effective in 2002, and was most recently amended in 2009. State-certified motion picture productions that spend at least \$300,000 on eligible expenditures for goods and services in Louisiana may earn a tax credit. This can include using Louisiana residents to build a set, which creates local jobs, or expenditures that have less direct Louisiana

impacts, such as star actor salaries. It is a transferable 30 percent tax credit on in-state expenditures directly related to the production of a motion picture in the State. There is an additional 5 percent tax credit for Louisiana resident payroll expenditures. There is no annual cap or per-project cap on tax credits. A tax credit can be applied against any Louisiana income tax liabilities, corporate or individual. Production companies can also transfer the credit back to the State via LDR for 85 percent of the face value of the tax credit; this lowers the cost of this credit by 15 percent, while accelerating the financial benefit of the credit to the film production company. Tax credits alternatively can be transferred or sold by a production company to a third party.

Louisiana was one of the first states in 2002 to enact legislation to specifically target motion picture production in the United States. Since that time, more than 40 other states have followed suit. Since the start of the recession, some states have reduced their film tax credits, boosting the competitiveness of Louisiana's credit by comparison. While Georgia, North Carolina, Michigan, and New Mexico now have similarly competitive programs, Louisiana consistently ranks in the top five as a location for motion picture production. Most recently, the State has been ranked No. 3 behind California and New York for volume of production activity. A report on the historical performance and economic impact of Louisiana's program is required every two years according to statute. The most recent report was completed in 2011 and is available for download on LED's website. For FY11, this exemption totaled \$174 million.

Enterprise Zone Program

Enacted in 1981, the Louisiana Enterprise Zone Program, or EZ, was originally created to encourage, through tax and regulatory relief to entrepreneurs and investors, economic development in blighted neighborhoods with high unemployment, low income, or where a high percentage of residents receive public assistance. However, its structure has evolved substantially over time. Qualifying companies, those creating new jobs equal to the lesser of five jobs or 10 percent of the existing employment level and hiring at least 35 percent of net new jobs from one of four targeted groups, may receive job tax credits (generally, \$2,500 per net new job) and either sales and use tax rebates (generally, 4 percent on construction costs taxed by the State; and local sales and use tax rebates, with approval of the local taxing bodies) or investment tax credits (1.5 percent of qualified capital expenditures).

Originally conceived at the federal level, EZ programs are structured and administered in different ways depending on the state. Each state tends to use different incentives, different industry sector criteria, and different hiring requirements when administering its EZ program. For example, Mississippi and Alabama require businesses to be located in specific geographic zones. Texas has a total incentive maximum per project based on employment and investment. According to a recent Louisiana Legislative Auditor report, Alabama, Arkansas, Mississippi, and Texas exclude part-time employees from qualifying for EZ program incentives.

An analysis of the EZ program published by LED in 2010 indicated that most EZ activity in Louisiana involves larger businesses (e.g., national retail chains, manufacturers, hospitals, hotels, industrial/offshore construction and services, distribution, commodity storage and transportation) in relatively affluent, urban/suburban areas of the State that are not designated as Enterprise Zones. Over a recent four-year period, more than 95 percent of the value of incentives made available through the EZ program was provided to large businesses (those with more than 500 employees). Furthermore, Louisiana's EZ program has fewer mechanisms in place to encourage net new permanent job growth for the State than similar programs in neighboring states. For example, unlike Louisiana, four nearby Southern states (Alabama, Arkansas, Mississippi and Texas) target their programs toward industry sectors that drive new economic growth and net new permanent jobs, and generally avoid providing incentives to

certain industries that typically follow local demand and/or suffer from substitution effects (e.g., retail, restaurants, and other sectors serving primarily local demand, where jobs created by one business may result in jobs lost by another business).

Many large businesses with employment swings due to normal operations (including effects of the business cycle) meet EZ eligibility requirements in Louisiana by simply performing their routine hiring function (as opposed to adding new permanent jobs) because the employment baseline is based on a four-month median, a relatively short period of time. In addition, in Louisiana, a company making qualified capital expenditures and the contractor hired to perform the work are both eligible to receive the incentive.

An extensive report on the historical performance of Louisiana's EZ program, including program evaluation and recommendations for improvement (most of which were subsequently addressed with updated rules), was completed in 2010 and is available for download on LED's website. For FY11, this exemption totaled \$91 million.

Louisiana Quality Jobs Program

Enacted in 1995, the Louisiana Quality Jobs Program, or QJ program, is an incentive to encourage businesses to locate or expand existing operations in the State and create quality jobs. The program was last amended in 2011. Qualifying companies receive a 5 or 6 percent cash rebate of annual gross payroll for new, direct jobs for up to 10 years, and a 4 percent sales and use tax rebate on construction costs taxed by the State or a 1.5 percent investment tax credit through Enterprise Zone. New, direct jobs are defined as new jobs at a project site that result in an increase in a company's statewide employment, a company's statewide employment baseline being the median employment of the company during the four months prior to the incentive contract. To qualify, a business must be in a certain industry sector, be located in a distressed region, and/or have at least 50 percent of annual sales outside of Louisiana. These eligibility requirements generally restrict the program to wealth-generating projects while disqualifying projects that primarily serve local demand (e.g., retail, restaurants, hotels, health care), except for some energy-related projects, certain project types in distressed regions, and other unique situations. There are minimum annual payroll thresholds on net new jobs, which differ depending on the size of the company.

Louisiana's QJ program resembles payroll rebate programs targeting high-wage job creation in four other Southern states: Arkansas (3.9 to 5 percent of new job payroll), Kentucky (4 to 5 percent), Mississippi (4 percent), and Oklahoma (typically 5 to 6 percent, up to 10 percent for jobs paying annual wages of ~\$100,000 or more). Louisiana's program is similar to other states in that it sets minimum standards for health care benefits and restricts eligible businesses to specific target sectors for economic development. An extensive report on the historical performance of Louisiana's QJ program, including program evaluation and recommendations for improvement, was completed in 2010 and is available for download on LED's website. For FY11, this exemption totaled \$48 million.

APPENDICES

Appendix A: Louisiana's Tax Competitiveness for Businesses

Appendix B: Louisiana's Tax Competitiveness for Individuals

Appendix C: Top 25 State Tax Exemptions in Louisiana by Value

Appendix D: Sales Tax Exemptions in Louisiana

Appendix E: Individual Income Tax Exemptions in Louisiana

Appendix F: Corporate Income and Franchise Tax Exemptions in Louisiana

Appendix G: Severance Tax Exemptions in Louisiana

Appendix H: Other Tax Exemptions in Louisiana

Appendix I: LED-Managed Tax Exemptions

APPENDIX A: LOUISIANA'S TAX COMPETITIVENESS FOR BUSINESS

Report	Source	LA's rank (1 = best)		Comments/Limitations
		U.S.	South (out of 16)	
Location Matters: A Comparative Analysis of State Tax Costs on Business	Tax Foundation	2 (new firms); 10 (mature firms)	1 (new firm); 3 (mature firms)	Comprehensive report compares tax burdens for both new and mature firms across industries; does not provide overall state ranks
State Business Tax Climate Index	Tax Foundation	32	6	Evaluates how state tax systems align with principles of tax neutrality and fairness rather than actual tax burden on business; ignores differences in states' industry composition
State Business Tax Burden Report	Anderson Economic Group	6	4	Measures aggregate business tax burden (ratio of taxes paid to profits earned); ignores differences in states' industry composition
Total State and Local Business Taxes	COST/Ernst and Young	35	13	Measures aggregate business tax burden (ratio of taxes paid to private sector GSP); ignores differences in states' industry composition
Business Tax Index	Small Business & Entrepreneurship Council	22	10	Evaluates tax impacts on small businesses based on 18 tax-related measures; ignores differences in states' industry composition

Source: LED Analysis

APPENDIX B: LOUISIANA'S TAX COMPETITIVENESS FOR INDIVIDUALS

Report	Source	LA's rank (1 = best)		Comments/Limitations
		U.S.	South (out of 16)	
State-Local Tax Burden, Fiscal Year 2009	Tax Foundation	9	4	Measures the percentage of income residents pay in state and local taxes by calculating the total amount of taxes paid by a state's residents divided by the state's total income
Sales Tax: Combined State and Average Local Rates, 2012	Tax Foundation	48	15	Ranks states by combined state and local sales tax rates
State and Local Property Tax Collections Per Capita by State, Fiscal Year 2009	Tax Foundation	6	4	Ranks states by per capita amount of property tax collected
Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison, 2010	CFO, District of Columbia	11*	4	Compares the rates and burdens of major taxes (a combination of income, property, sales, and auto) in Washington, D.C. and the largest city in each of the fifty states

* Indicates ranking out of 51, includes the District of Columbia
Source: LED Analysis

APPENDIX C: TOP 25 STATE TAX EXEMPTIONS IN LOUISIANA BY VALUE

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Tax Type	Value (FY11)
1	Federal income tax deduction	1974	Deduction to offset federal income taxes paid	CIFT, IIT	840
2	Subchapter S Corporation	1989	Exclusion of certain corporate income to avoid double taxation	CIFT	435
3	Inventory tax/Ad valorem tax credit	1991; last amended 2005	Credit for ad valorem taxes paid on inventory	CIFT, IIT	374
4	Sales of gasoline, gasohol, and diesel	1990	Tax exemption for fuel subject to the road-use excise tax	Sales	371
5	Net Louisiana operating loss	1979	Deduction to offset losses in one tax year with income from another	CIFT	343
6	Sales of food for preparation and consumption in the home	2002	Tax exemption for food sold for home use	Sales	334
7	Excess federal itemized deductions	1980; last amended 2007	Deduction for excess federal itemized deductions	IIT	332
8	Sales of electric power or energy - nonresidential	1948; last amended 2008	Tax exemption for electric power or energy sold for non-residential use	Sales	257
9	Insurance company premium tax	1934	Credit to offset insurance premium taxes paid	CIFT	249
10	Personal exemption - standard deduction	1934	Deduction from state income taxes	IIT	244
11	Drugs prescribed by physicians or dentists	2002	Tax exemption for prescription drugs	Sales	239
12	Horizontal wells - natural gas suspensions	1994	Suspension of severance tax for 24 months or until payout	Severance	235
13	Purchases by state and local governments	1991; amended 2007	Tax exemption for purchases by state and local government	Sales	203
14	Motion picture investor tax credit	1992; last amended 2009	Credit on motion picture production expenditures	LED - CIFT, IIT	174
15	Sales of electric power or energy - residential use	2002	Tax exemption for electric power or energy sold for home use	Sales	146
16	Enterprise zones	1981; last amended 2011	Credit for job creation	LED - CIFT, IIT, Sales	91
17	Net income taxes paid to other states	1946	Credit for taxes paid to other states to avoid double taxation	IIT	82
18	Social security benefits exclusion	1984	Exclusion from income tax for Social Security benefits	IIT	67
19	State employees, teachers, and other retirement benefit exclusion	1946;	Exclusion from income tax for state employees retirement benefits	IIT	67
20	Inactive wells - oil suspensions	1994; last amended 2005	Severance tax exemption for five years for wells returned to production	Severance	65
21	Louisiana quality jobs program	1995; last amended 2011	Credit for job creation	LED - CIFT, IIT, Sales	48
22	LA Citizens Property Insurance Corporation (LCPIC) assessment	2006; amended 2007	Refundable credit to offset payments made to LCPIC	CIFT, IIT	54

APPENDIX C: TOP 25 STATE TAX EXEMPTIONS IN LOUISIANA BY VALUE

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Tax Type	Value (FY11)
23	Earned income tax credit	2007	Credit to supplement the federal earned income tax credit	IIT	46
24	Stripper oil	1974	Rate reduction for marginally productive oil wells	Severance	39
25	New markets tax credit	2002; last amended 2009	Credit to encourage private sector equity investment	CIFT, IIT	32
	All others			All	1,406
Total Louisiana Exemptions					6,772

CIFT: Corporate Income and Franchise Tax

IIT: Individual Income Tax

LED: Louisiana Economic Development

Source: LDR TEB reports, LDR data, LED Analysis

APPENDIX D: SALES TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
1	Sales of gasoline, gasohol, and diesel	Constitutional amendment 1990	Tax exemption for fuel subject to the road-use excise tax	371
2	Sales of food for preparation and consumption in the home	2002; fully effective 2003	Tax exemption for food sold for home use	334
3	Sales of electric power or energy - nonresidential	1948; last amended 2008	Tax exemption for electric power or energy sold for non-residential use	257
4	Drugs prescribed by physicians or dentists	2002	Tax exemption for prescription drugs	239
5	Purchases by state and local governments	1991	Tax exemption for purchases by state and local government	203
6	Sales of electric power or energy - residential	2002	Tax exemption for electric power or energy sold for home use	146
7	Vendor's compensation	1948; last amended 2001	Credit for collecting and remitting sales taxes to LDR	29
8	Purchases of manufacturing machinery and equipment	2004; last amended 2007	Tax exemption for purchases of manufacturing machinery and equipment	25
9	Enterprise zones*	1981	Credit for job creation	18
10	Louisiana quality jobs program*	1995; last amended 2011	Credit for job creation	17
11	Manufacturers rebates on new motor vehicles	1991	Tax exclusion for manufacturers' rebates on new vehicles	12
12	Purchases of tangible personal property for lease or rental	1990	Tax exclusion on dealer purchases of rental property	11
13	Certain trucks and trailers used 80% in interstate commerce	1996; last amended 2007	Tax exemption on purchases of trucks used in interstate commerce	10
14	Exemptions subject to 1% suspended rate	1986; several amendments	Exemptions for various purposes	9
15	Used manufactured homes and 54% of cost of new manufactured homes	2000; last amended 2009	Tax exclusion for portion of cost of new and used factory built homes	6
16	Sales of water - nonresidential	1948	Tax exemption for water sold for non-residential use	4
17	Sales tax remitted on bad debts from credit sales	1976; amended in 1985	Refund on sales taxes remitted but uncollected by vendors	4
18	Annual Louisiana sales tax holiday	2005; amended in 2007	Tax exclusion on first \$2,500 of personal property purchased	4
19	Louisiana tax free shopping program	1988; last amended 2008	Refund of sales taxes to international tourists	1
20	Purchases or leases of durable medical equipment paid by or under provisions of Medicare	1994	Refund on taxes on medical equipment	1
21	Second Amendment sales tax holiday	2009	Tax holiday on consumer purchases of firearms and equipment	1
22	Purchases of consumables by paper and wood manufacturers and loggers	2009	Tax exclusion (phased-in) for items consumed in manufacturing process	0
23	State sales tax paid on property destroyed in a natural disaster	1970; last amended 1973	Tax refunds on uninsured losses due to natural disasters	0
24	Hurricane preparedness Louisiana sales tax holiday	2007	Tax holiday on certain hurricane preparedness items	0
25	Credit for costs to reprogram cash registers	1990	Credit to compensate for cash register reprogramming costs	0

APPENDIX D: SALES TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
26	Repair services performed in Louisiana when the repaired property is exported	1977; amended 2007	Tax exclusion on repair services on exported personal property	0
27	Purchases of electric power and natural gas by paper or wood products manufacturing facilities	2005; amended 2007	Tax exemption for purchases of electric power and natural gas by paper/wood manufacturing facilities	0
28	Industrial tax equalization program*	1966; last amended 2005	Tax equalization for competitive economic development projects	0
29	First \$50,000 of the sales price of certain farm equipment and attachments	1978; last amended 1985	Tax exemption for qualifying farm equipment	0
30	Exemptions for manufacturing establishments*	1982; last amended 2005	Tax exemption program for economic development projects	0
31	Certain contract carrier buses used 80% in interstate commerce	1998; last amended 2002	Tax exemption for purchases of contract carrier buses used in interstate commerce	0
32	Other exemptions	Various	Exemptions for various purposes	816
Total Louisiana Sales Tax Exemptions				2,516

* LED-managed tax exemption

LED: Louisiana Economic Development

Source: LDR TEB reports; LDR data; LED Analysis

APPENDIX E: INDIVIDUAL INCOME TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
1	Federal income tax deduction	1974	Deduction to offset federal income taxes paid	690
2	Excess federal itemized deductions	1980; last amended 2007	Deduction for excess federal itemized deductions	332
3	Personal exemption - standard deduction	1934	Deduction from state income taxes	244
4	Motion picture investor tax credit*	1992; last amended in 2009	Credit on motion picture production expenditures	89
5	Net income taxes paid to other states	1946	Credit for taxes paid to other states to avoid double taxation	82
6	Social security benefits exclusion	1984	Exclusion from income tax for Social Security benefits	67
7	State employees, teachers, and other retirement benefit exclusion	1946	Exclusion from income tax for State employees retirement benefits	67
8	LA Citizens Property Insurance Corporation (LCPIC) assessment	2006; amended 2007	Refundable credit to offset payments made to LCPIC	47
9	Earned income tax credit	2007	Credit to supplement the federal earned income tax credit	46
10	Dependent exemption/deduction	1934; amended 1980	Deduction allowed for each dependent	31
11	Rehabilitation of historic structures	2002; last amended 2011	Credit for rehabilitation of historic structures	27
12	Federal retirement benefits exclusion	1989	Exclusion from income tax for federal government retirement benefits	26
13	Enterprise zones*	1981; last amended 2011	Credit for job creation	23
14	Education credit	1980; last amended 2002	Credit for qualified dependent children in grades K-12	18
15	Annual retirement income exclusion	1981	Exclusion from income tax for retirement income	18
16	Certain child care expenses	2002; amended 2005	Credit to offset child care expenses	17
17	New markets tax credit	2002; last amended 2009	Credit to encourage private sector equity investment	16
18	Ad valorem tax credit for offshore vessels	1991; last amended 2005	Credit to offset ad valorem taxes paid on offshore vessels	16
19	Wind and solar energy system	2007; amended 2009	Credit to offset wind/solar energy system costs	13
20	Deduction for net capital gains	2009	Deduction for net capital gains	13
21	Elementary & secondary school tuition deduction	2008; amended 2009	Deduction for up to 50% of school tuition and fees	12
22	Inventory tax/Ad valorem tax	1991; last amended 2005	Credit for ad valorem taxes paid on inventory	12
23	Research and development tax credit*	2002; last amended 2011	Credit to encourage research and development activities	8
24	Military pay exclusion	2000; last amended 2007	Tax exemption for first \$30,000 of out-of-state military duty compensation	5
25	Deduction for I.R.C. Section 280C expense	2006	Deduction for child care expenses	5

APPENDIX E: INDIVIDUAL INCOME TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
26	School readiness child care directors and staff	2007	Credit for child care teachers and directors in Quality Start centers	5
27	Disability income exclusion	2000	Exclusion of portion of income received for permanent total disability	5
28	Certain disabilities	1980	Credit of \$100 for individuals with certain physical and/or mental disabilities	4
29	Angel investor tax credit program*	2005; last amended 2011	Credit to encourage investment in early-stage businesses	3
30	Louisiana Community Development Financial Institutions (LCDFI) Act	2005; amended 2007	Tax exemption for investment in low-income communities	2
31	Special allowable credits	1980	Credit for 10% of certain enumerated federal income tax credits	2
32	School readiness child care provider	2007	Refundable credit for Quality Start child care providers	2
33	School readiness child care	2007	Credit for dependent children attending Quality Start center	2
34	Deduction for fees and other educational expenses for a quality public education	2008; amended 2009	Deductions to offset public school fees	2
35	Milk producers	2007	Credit for milk producers based on production and sales levels	2
36	Deduction for Student Tuition Assistance and Revenue Trust (START) savings program contribution	2000; amended 2005	Deduction for deposits into START savings accounts	2
37	Small town doctor or dentist	1991	Credit to encourage doctors and/or dentists to practice in small towns	2
38	Digital interactive media and software tax credit*	2005; amended 2011	Credit on digital interactive media production expenditures	1
39	Property insurance	2007; amended 2007	Credit to offset insurance costs for primary residences	1
40	Contribution of tangible property of a sophisticated and technological nature to educational institutions	1983	Credit to encourage contributions of technology to schools	1
41	Brownfields investor tax credit	2005; amended 2007	Credit for investors in brownfields	1
42	Employment-related expenses for maintaining households for certain disabled dependents	1996	Credit to offset costs of care for the physically/mentally disabled	1
43	Conversion of vehicles to alternative fuel	2009	Credit to offset purchase cost of a clean burning motor vehicle	1
44	Louisiana motion picture incentive program*	1990; amended 2005	Credit on motion picture production activities	0
45	Employment of the previously unemployed	1989	Credit to encourage hiring of previously unemployed persons	0
46	Donations of materials, equipment, or instructors made to certain training providers	1998; amended 2002	Credit to encourage donations to technical training/vocational schools	0
47	Apprenticeship tax credit	2007; amended 2011	Credit to encourage hiring eligible apprentices	0
48	Louisiana quality jobs program*	1995; amended 2011	Credit for job creation	0
49	Industrial tax equalization program*	1966; amended 2005	Tax equalization for competitive economic development projects	0
50	Rehabilitation of an owner occupied residential or mixed-use property	2005; amended 2007	Credit to offset cost of rehabilitating certain residential or mixed-use property	0

APPENDIX E: INDIVIDUAL INCOME TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
51	Educational expense incurred for a degree related to law enforcement	1994	Credit to offset cost of law enforcement study	0
Total Louisiana IIT Exemptions				1,963

* LED-managed tax exemption

IIT: Individual Income Tax

LED: Louisiana Economic Development

Source: LDR TEB reports; LDR data; LED Analysis

APPENDIX F: CORPORATE INCOME AND FRANCHISE TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
1	Subchapter S Corporation	1989	Exclusion of certain corporate income to avoid double taxation	435
2	Inventory tax/Ad valorem tax credit	1991	Credit for ad valorem taxes paid on inventory	362
3	Net Louisiana operating loss	1979	Deduction to offset losses in one tax year with income from another	343
4	Insurance company premium tax	1934	Credit to offset insurance premium taxes paid	249
5	Federal income tax deduction	1974	Deduction to offset federal income taxes paid	151
6	Motion picture investor tax credit*	1992; last amended 2009	Credit on motion picture production expenditures	85
7	Enterprise zones*	1981; last amended 2011	Credit for job creation	49
8	Louisiana quality jobs program*	1995; last amended 2011	Credit for job creation	31
9	Ad valorem tax paid by certain telephone companies	2000	Refundable credit for ad valorem taxes paid on public service properties	23
10	Ad valorem tax credit for offshore vessels	1991; last amended 2005	Credit to offset ad valorem taxes paid on offshore vessels	21
11	Research and development tax credit*	2002; last amended 2011	Credit to encourage research and development activities	20
12	New markets tax credit	2002; last amended 2007	Credit to encourage private sector equity investment	16
13	Rehabilitation of historic structures	2002; last amended 2011	Credit for rehabilitation of historic structures	14
14	Industrial tax equalization program*	1966	Tax equalization for competitive economic development projects	8
15	LA Citizens Property Insurance Corporation (LCPIC) assessment	2006; amended in 2007	Refundable credit to offset payments made to LCPIC	7
16	Ad valorem tax on natural gas	2005	Credit to offset cost of ad valorem taxes paid on stored natural gas	5
17	Louisiana motion picture incentive program*	1990; last amended 2005	Credit on motion picture production activities	5
18	School readiness child care provider credit	2007	Refundable credit for Quality Start child care providers	3
19	Exemptions for manufacturing establishments*	1982	Tax exemption program for economic development projects	2
20	Louisiana Capital Companies (LCC) tax credit program	1983	Credit to encourage investment in companies providing business financing	2
21	New jobs	1978	Credit for corporations for hiring economically disadvantaged residents	2
22	Sound recording investor tax credit*	2005	Credit on sound recording production expenditures	1
23	Apprenticeship tax credit	2007	Credit to encourage hiring eligible apprentices	1
24	Sugarcane transport credit	2007	Credit to offset costs of sugarcane trailers	1
25	Musical & theatrical productions tax credit*	2007	Credit on musical & theatrical production expenditures	1

APPENDIX F: CORPORATE INCOME AND FRANCHISE TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
26	Conversion of vehicles to alternative fuel	2009	Credit to offset purchase cost of a clean burning motor vehicle	0
27	Brownfields investor tax credit	2005	Credit for investors in brownfields	0
28	Milk producers	2007	Credit for milk producers based on production and sales levels	0
29	School readiness business supported child care	2007	Refundable credit for eligible business-supported child-care expenses	0
30	Angel investor tax credit program*	2005	Credit to encourage investment in early-stage businesses	0
31	Wind and solar energy system	2007; amended in 2009	Credit to offset wind/solar energy system costs	0
32	Louisiana Community Development Financial Institutions (LCDFI) Act	2005	Tax exemption for investment in low income communities	0
33	School readiness fees and grants to resource and referral agencies credit	2007	Credit to offset cost of sponsored child care	0
34	Certain refunds issued by utilities	1960	Credit against gross income based on refunds related to rate increase denials	0
35	Employee and dependent health insurance coverage credit	2005	Credit to offset health insurance costs of contractors/sub-contractors of Louisiana public works	0
36	Employment of the previously unemployed	1989	Credit to encourage hiring of previously unemployed persons	0
37	Neighborhood assistance	1982	Credit to businesses providing neighborhood services to impoverished areas	0
38	Atchafalaya trace heritage area development zone tax exemption	2002	Tax exemption to encourage use of the heritage area	0
39	Mentor-protégé tax credit*	2007	Refundable credit for companies that fulfill the Mentor-Protégé agreement	0
40	Urban revitalization tax incentive program*	2005	Incentive for businesses to locate in depressed areas of the state	0
41	Technology commercialization credit program*	2002	Credit to businesses for commercializing research at a Louisiana university	0
42	Purchase of qualified new recycling manufacturing or process equipment and/or service contracts	1991; amended in 2005	Credit for the purchase of new recycling manufacturing or process equipment	0
40	Other CIT exemptions	N/A	Exemptions for various purposes	0
Total Louisiana CIFT Exemptions				1,837

* LED-managed tax exemption

CIFT: Corporate Income and Franchise Tax

LED: Louisiana Economic Development

Source: LDR TEB reports, LDR data, LED Analysis

APPENDIX G: SEVERANCE TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
1	Horizontal wells - natural gas suspensions	1994	Suspension of severance tax for 24 months or until payout	235
2	Inactive wells - oil suspensions	1994; last amended 2005	Exemption of severance tax for five years for oil wells returned to production	65
3	Stripper oil	1973	Rate reduction for marginally productive oil wells	39
4	Incapable gas - well gas	1958	Special tax rate for producers owning low-volume gas wells	29
5	Tertiary recovery - oil suspensions	1983; amended 2009	Severance tax exemption for producers of large-scale carbon dioxide injection projects	20
6	Incapable oil	1948	Special tax rate for producers owning low volume oil wells	13
7	Deep wells - oil suspensions	1994	Suspension of severance tax for 24 months or until payout	10
8	Consumed in field operations	1958	Exclusion for gas used in maintaining the operation of a field	9
9	Deep wells - natural gas suspensions	1994	Suspension of severance tax for 24 months or until payout	3
10	Inactive wells - natural gas suspensions	1994; last amended 2005	Exemption of severance tax for five years for oil wells returned to production	3
11	Trucking, barging, and pipeline fees	1973	Deduction allowable for satisfying specific requirements	2
12	Horizontal wells - oil Suspensions	1994	Suspension of severance tax for 24 months or until payout	1
13	Incapable oil - well gas	1958	Special tax rate for producers owning low-volume gas wells	1
14	Used in the manufacture of carbon black	1958	Exclusion on severance tax for gas consumed in carbon black manufacture	1
15	Flared or vented	1935	Exclusion for gas flared or vented into the atmosphere	1
16	Produced water injection incentive	1991	Reduction on severance tax on water injected wells	0
17	Injection	1940	Exclusion to provide deferred tax liability for recovery and repressurization	0
18	Salvage oil	1986	Special tax rate for qualified class-one salvage oil operators	0
19	Produced outside the State of Louisiana	1960	Tax exemption for non-Louisiana produced natural gas injected in Louisiana	0
20	Consumed in the production of natural resources in the State of Louisiana	1974	Tax exclusion for gas consumed in the production of natural resources, except oil and gas	0
Total Louisiana Severance Tax Exemptions				432

Source: LDR TEB reports; LDR data; LED Analysis

APPENDIX H: OTHER TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Tax Type	Value (FY11)
1	Discount of 6% for tobacco stamps	1932	Discount for tobacco tax stamps when gross stamp purchases exceed \$100	Tobacco	7
2	Discount for timely filing and payment by suppliers/permissive suppliers - gasoline	2005	Deduction for timely payments	Petroleum	7
3	Seven-mile zone exclusion - public utilities	1965; amended 1991	Exemption for transportation within selected seven-mile zones	Misc.	3
4	Discount for timely filing and payment by suppliers/permissive suppliers - special fuels	2005	Deduction for timely payment	Petroleum	2
5	Discount of 6% for timely filing reports	1974	Discount for timely and accurate filings	Tobacco	1
6	Exports of gasoline or diesel fuels	2003	Waiver on inspection fee for gasoline or diesel fuel exports	Petroleum	1
7	Diesel fuels used in or distributed to seagoing vessels	2003	Waiver on inspection fee for fuels sold for use by seagoing vessels	Petroleum	1
8	Discount of 2%	1972; amended 2002	Discount for timely and accurate filings	Alcohol	1
9	Discount of 3.33%	1972	Discount for timely filings	Alcohol	1
10	School-bus drivers - diesel fuels category	1984	Refund of special fuels tax payment	Petroleum	0
11	Return of taxable cigarettes to the manufacturer	1932	Credit to offset taxes paid on damaged or "unfit for sale" cigarettes	Tobacco	0
12	Aviation gasoline	1980; superseded 2005	Exemption from gasoline tax on aviation gasoline	Petroleum	0
13	Products returned to manufacturer or destroyed by a dealer	1934; amended 2002	Credit to offset taxes paid on damaged or "unfit for sale" alcohol	Alcohol	0
14	Direct descendants by blood or affinity, ascendants, or surviving spouses (prior to 1992) of decedent	1982; repealed effective 2010	Tax exemption for initial amount inherited	Inheritance	0
15	School-bus drivers - gasoline fuels category	1984; superseded 2005	Refund of special fuels tax payment	Petroleum	0
16	Deduction of 2% for timely filing reports - Telecommunications	1988	Deduction for accurate and timely filings	Misc.	0
17	Gasoline and undyed diesel brought into Louisiana in fuel supply tanks of interstate motor fuel users	1976	Exclusion from inspection fee for interstate motor fuel users	Petroleum	0
18	Proceeds of Life Insurance Paid to Named Beneficiaries	1968; repealed effective 2010	Tax exemption for life insurance proceeds payable to named beneficiary	Inheritance	0
19	Deduction for compliance - hazardous waste disposal	1990	Deduction for timely and accurate filings	Misc.	0
20	Annual exclusion per donee	2002; repealed effective 2008	Exclusion for gifts made to a donee	Gift	0
21	Farmers, fishermen, and aircraft	1950; amended 2005	Refund of taxes on gasoline for certain uses	Petroleum	0
22	Bequests to charitable, religious, or educational institutions in Louisiana	1921; repealed effective 2010	Tax exemption for all bequests to Louisiana religious and charitable organizations	Inheritance	0
23	Surviving spouse	1987; repealed effective 2010	Tax exemption for property inherited by a surviving spouse	Inheritance	0
24	Specific lifetime exemption; \$30,000	1972; repealed effective 2008	Tax exemption for gifts	Gift	0

APPENDIX H: OTHER TAX EXEMPTIONS IN LOUISIANA

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Tax Type	Value (FY11)
25	Bequests to out-of-state charitable, religious, or educational institutions	1974; repealed effective 2010	Tax exemption for contributions to out-of-state charitable institutions	Inheritance	0
26	Bequests to the state, incorporated municipalities, or political subdivisions for exclusive public use	1972; repealed effective 2010	Tax exemption for bequests for exclusive public use	Inheritance	0
27	Collateral Relations; \$1,000 Exemption	1921; repealed effective 2010	Tax exemption for \$1000 of inheritance received by siblings	Inheritance	0
28	Gifts made to charitable, religious, or educational institutions located in Louisiana	1940; repealed effective 2008	Tax exemption for gifts made to Louisiana religious and charitable organizations	Gift	0
29	Gifts Made to the United States, the State of Louisiana, or its political subdivisions or civic organizations	1940; repealed effective 2008	Tax exemption for gifts made to the United States, the State of Louisiana, and/or subdivisions	Gift	0
30	Gifts to spouse	1987; repealed effective 2008	Tax exemption for gifts made to a spouse	Gift	0
31	Strangers or nonrelated persons: \$500 exemption	1921; repealed effective 2010	Tax exemption for first \$500 inherited from non-related persons	Inheritance	0
Total of Other Tax Exemptions					24

Source: LDR TEB reports; LDR data; LED Analysis

APPENDIX I: LED-MANAGED TAX EXEMPTIONS

\$ Millions

No.	Exemption Title	Year Created/Amended	Description	Value (FY11)
1	Motion picture investor tax credit	1992; last amended 2009	Credit on motion picture production expenditures	174
2	Enterprise zones	1981; last amended 2011	Credit for job creation	91
3	Louisiana quality jobs program	1995; last amended 2011	Credit for job creation	48
4	Research and development tax credit	2002; last amended 2011	Credit to encourage research and development activities	28
5	Industrial tax equalization program	1966; last amended 2005	Tax equalization for competitive economic development projects	8
6	Louisiana motion picture incentive program	1990; last amended 2005	Credit on motion picture production activities	5
7	Angel investor tax credit program	2005; last amended 2011	Credit to encourage investment in early-stage businesses	3
8	Exemptions for manufacturing establishments	1982; last amended 2005	Tax exemption program for economic development projects	2
9	Digital interactive media & software tax credit	2005; last amended 2011	Credit on digital interactive media production expenditures	1
10	Sound recording investor tax credit	2005; last amended 2009	Credit on sound recording production expenditures	1
11	Musical & theatrical productions tax credit	2007; amended in 2009	Credit on musical & theatrical production expenditures	1
12	Technology commercialization credit program	2002; last amended 2011	Credit to businesses for commercializing research at a Louisiana university	0
13	Mentor-Protégé tax credit	2007	Refundable credit for companies that fulfill the Mentor-Protégé agreement	0
14	Louisiana Community Economic Development	2007	Credit on below-market sales to Community Development Corporations	0
15	Retention and modernization credit	2009	Credit on business investments to encourage job retention	0
16	Urban revitalization tax incentive program	2005	Incentive for businesses to locate in depressed areas of the state	0
17	University research and development parks	1991	Tax exemption for university research and development parks	0
18	Ports of Louisiana tax credits	2009; amended in 2011	Credit for investors in state-operated port facilities	0
Total LED-Managed Tax Exemptions				364

Note: The following five economic development exemptions included in the TEB are not managed by LED, thus they are not included in any total related to LED in this primer: Atchafalaya trace heritage area development zone tax exemption, Brownfields investor tax credit, Cane river heritage tax credit, Louisiana capital companies tax credit program, New markets tax credit.

LED: Louisiana Economic Development

Source: LDR TEB reports; LDR data; LED Analysis