LOUISIANA'S TAX REVENUES AND EXEMPTIONS

PERFORMANCE AUDIT SERVICES
INFORMATIONAL REPORT
ISSUED FEBRUARY 19, 2016

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 19, 2016

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Taylor Barras
Speaker of the House of Representatives

Dear Senator Alario and Representative Barras:

This report provides information on major tax revenues and exemptions in Louisiana. According to the Louisiana Department of Revenue's 2014-2015 Tax Exemption Budget, tax exemptions were projected to exceed tax revenues in fiscal year 2015. The purpose of this report is to summarize the revenue collected from Louisiana's major taxes compared to the amounts of tax exemptions, and to evaluate and provide recommendations on Louisiana's processes for reviewing tax exemptions. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

TAXREVENUESEXEMPT2016

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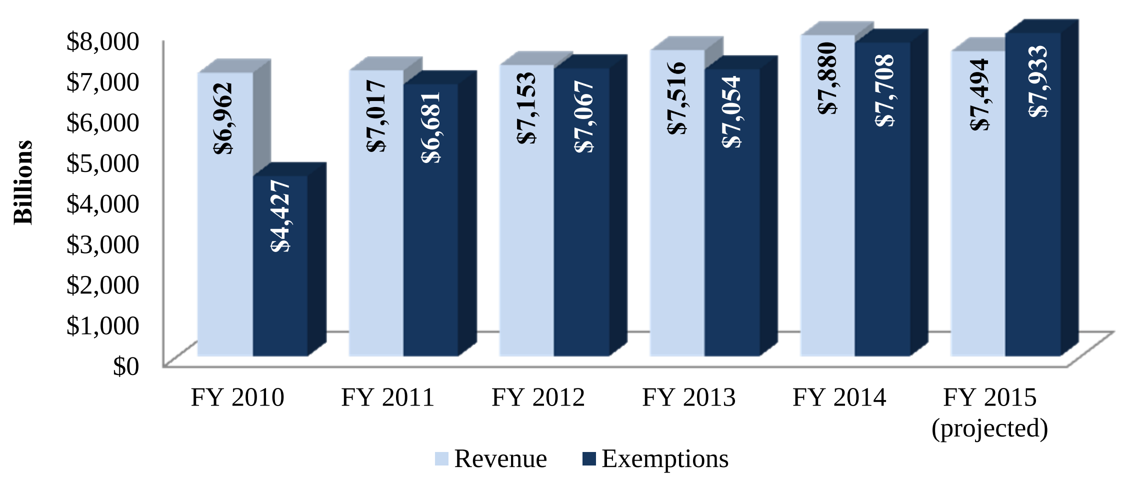
Tax Revenues and Exemptions

February 2016 *Audit Control # 40140018*

Introduction

Tax revenues contributed to about one-third of the state budget in fiscal year 2014. According to the Louisiana Department of Revenue's (LDR) 2014-2015 Tax Exemption Budget (TEB),[1] Louisiana was expected to collect approximately $7.5 billion in tax revenue in fiscal year 2015 from the 40 different taxes it assesses. Louisiana also has 464 tax exemptions,[2] projected to total approximately $7.9 billion in fiscal year 2015. Exhibit 1 summarizes the amount collected in tax revenues compared to the amounts of tax exemptions since fiscal year 2010.

Exhibit 1 – Tax Revenues and Exemptions Since Fiscal Year 2010



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

As the exhibit shows, tax exemptions have grown since 2010 and were projected to exceed tax revenue in fiscal year 2015 by more than $400 million. However, the amount of tax exemptions is likely greater as the Department of Revenue does not have data to calculate the fiscal effect of 28 of these exemptions due to a lack of reporting requirements. The purpose of this report is to summarize the revenue collected from the state's major taxes compared to the amount of tax exemptions and to evaluate and provide recommendations on Louisiana's processes for reviewing tax exemptions. Appendix A summarizes our scope and methodology.

[1] LDR publishes this every year. This is the most recent edition of the budget, which only includes projections for fiscal year 2015. Data in the TEB were not audited for accuracy or reliability. We did identify some discrepancies in the TEB. LLA auditors are in the process of evaluating the reliability of the numbers in the TEB.
[2] For the purposes of this report, the term exemptions includes exclusions, deductions, credits, rebates, incentives, and deferrals. These can be statutory, constitutional, or federally-mandated. Statutory and constitutional exemptions make up almost all of the 464 and are determined by legislators, voters, or both. Federally-mandated exemptions are those required by the federal government and are outside the control of the state.

Summary of Louisiana's Major Taxes and Exemptions

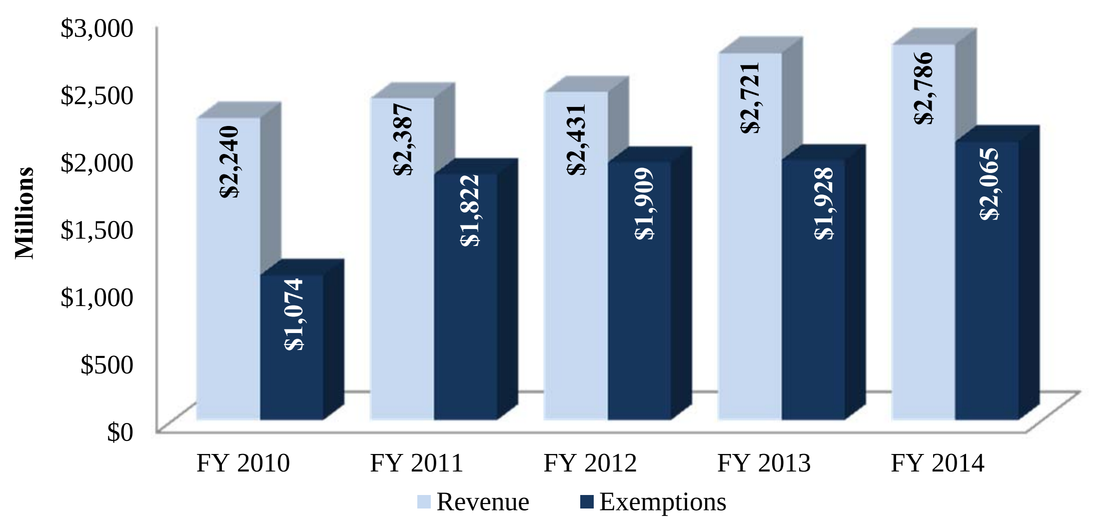
The majority of Louisiana's tax revenue comes from five categories of taxes: individual income, sales, severance, petroleum, and corporate income and franchise taxes. The revenue from these taxes totaled $7.4 billion and accounted for 95% of all tax revenue collected in Louisiana in fiscal year 2014. There are also 399 exemptions associated with these major tax categories that resulted in $7.1 billion in exemptions for the same year. The major categories of taxes and their associated exemptions are summarized on the following pages. Appendix B provides a description of the largest tax exemptions and the amount of those exemptions in fiscal years 2013 through 2015.

Individual Income Taxes. The individual income tax is levied on personal income earned by Louisiana residents and on income earned in Louisiana by non-residents. The state has a three-tiered individual income tax structure with rates of 2%, 4%, and 6% depending on income. Louisiana is one of 43 states with an individual income tax.

Individual income taxes are projected to make up the largest portion of tax revenue collected in fiscal year 2015 at 37%, or $2,916,210,450.

Louisiana has 79 individual income tax exemptions.[3] In total, Louisiana collected approximately $2.8 billion in individual income tax revenue in fiscal year 2014 compared to $2.1 billion in exemptions. The top individual income tax exemptions were the constitutionally-required federal income tax deduction, the excess federal itemized deduction, and the personal exemption standard deduction. According to the Tax Foundation, Louisiana, Alabama, and Iowa are the only states that allow full deductibility of federal income taxes. Exhibit 2 shows the amount of individual income tax revenue collected compared to the amount of individual income tax exemptions since fiscal year 2010.

Exhibit 2 − Individual Income Taxes and Exemptions, Fiscal Years 2010 to 2014



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

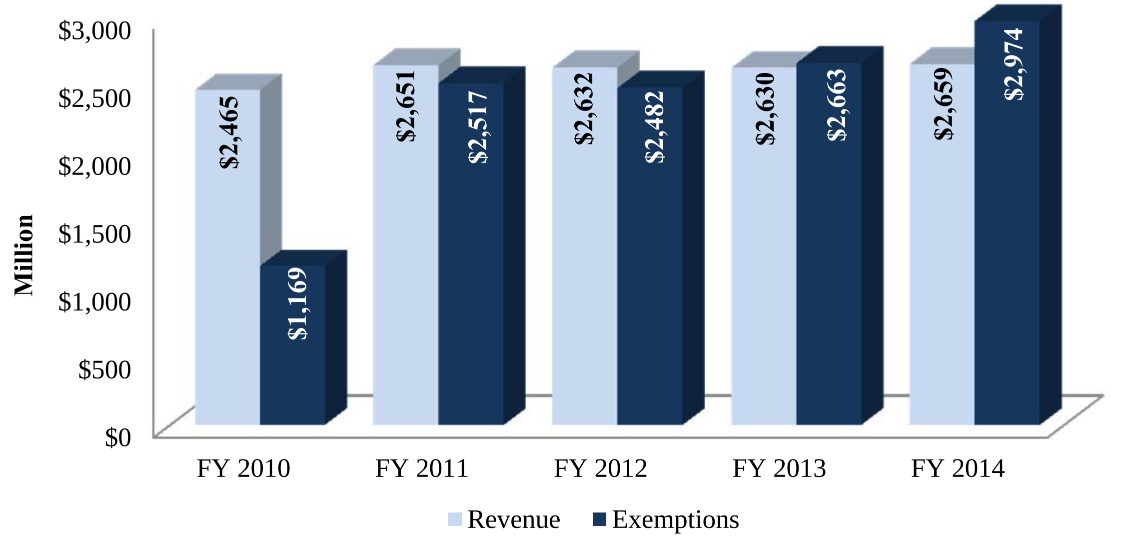
[3] Nine are exemptions or exclusions, 16 are deductions, 50 are credits, one is a rebate, and three are exemptions required either by the State Constitution or federal law.

According to the Tax Foundation, Louisiana's state tax rate of 4.0% is 13th lowest in the country, but the combined state and local sales tax rate of 9.01% ranks third-highest in the nation as of July 2015.

Sales Taxes. Sales taxes were projected to make up approximately 35%, or $2,708,092,636, of Louisiana's tax revenue in fiscal year 2015. Forty-five states, including Louisiana, impose a state sales tax. In general, sales taxes are imposed on certain consumer purchases and can be a mix of state and local rates. While Louisiana's state sales tax rate of 4% is constant, local rates vary by parish or municipality. In Louisiana, as in 37 other states, local jurisdictions are allowed by law to impose a separate sales tax. Local jurisdictions can charge up to a 3% sales tax, but anything beyond the 3% must be approved by the Legislature and by the voters. Currently, the average local sales tax rate in Louisiana is 5.01% with some areas as high as 7.0%.

The state has 192 sales tax exemptions.[4] In total, Louisiana collected $2.7 billion in sales tax revenue during fiscal year 2014 compared to $3 billion in sales tax exemptions. The top sales tax exemptions in fiscal year 2014 were for non-residential electric power or energy and for groceries, gasoline, and certain drugs. Exhibit 3 summarizes the amount of revenue collected in sales taxes compared to the amount of sales tax exemptions since fiscal year 2010.

Exhibit 3 – Sales Taxes and Exemptions
Fiscal Year 2010 to 2014



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

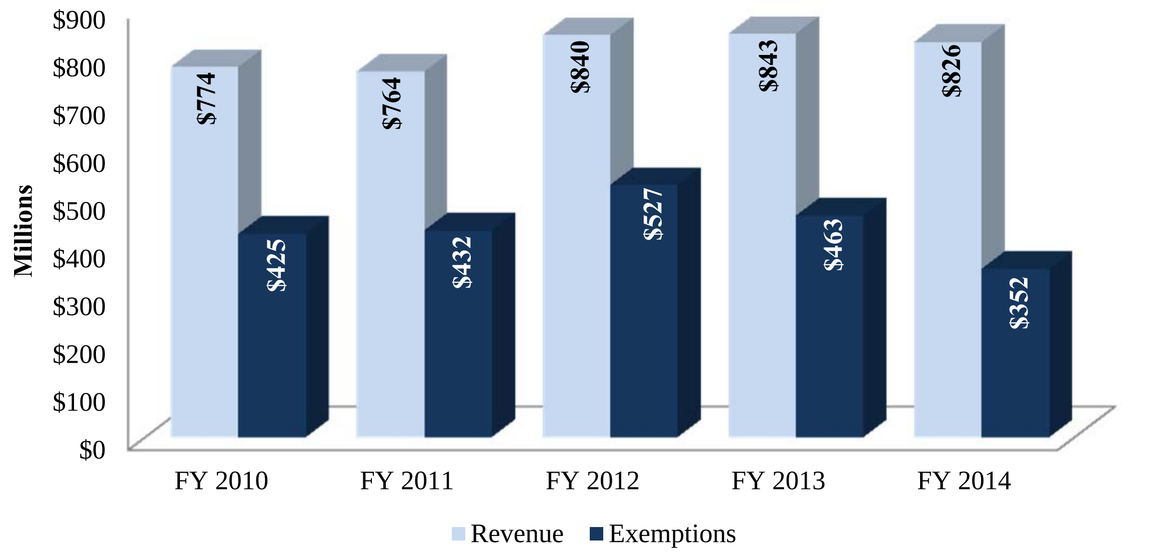
[4] Eighty-four are exclusions, 83 are exemptions, five are categorized as alternate-reporting methods, two are categorized as statutorily-prescribed methods of reporting, two are credits, six are refunds, and 10 are state exemptions with prohibitions on taxation.

> Across the country, 27 states levy an oil and/or natural gas severance tax. Both taxes generally are based on the value of the oil or gas at the time it is extracted, the volume produced, or some combination of the two.

Severance Taxes. Severance taxes are levied on natural resources taken from the ground. Louisiana taxes 15 different resources — oil, gas, timber and trees, pulpwood, forest products grown on reforested land, sulfur, salt, coal, ores, marble, stone, sand, shells, the salt content in brine, and lignite — but oil accounts for the bulk of the revenue. In fiscal year 2015, severance tax revenue was estimated to be 9%, or $735,038,181, of the taxes collected.

Louisiana has 23 severance tax exemptions,[5] with all but one related to the oil and gas industry. Among the exemptions are ones for horizontally-drilled wells, inactive wells, and deep wells, as well as for trucking, barging, and pipeline fees. Exhibit 4 summarizes the amount of severance tax revenue collected compared to the amount of severance tax exemptions since fiscal year 2010.

Exhibit 4 – Severance Taxes and Exemptions
Fiscal Years 2010 to 2014



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

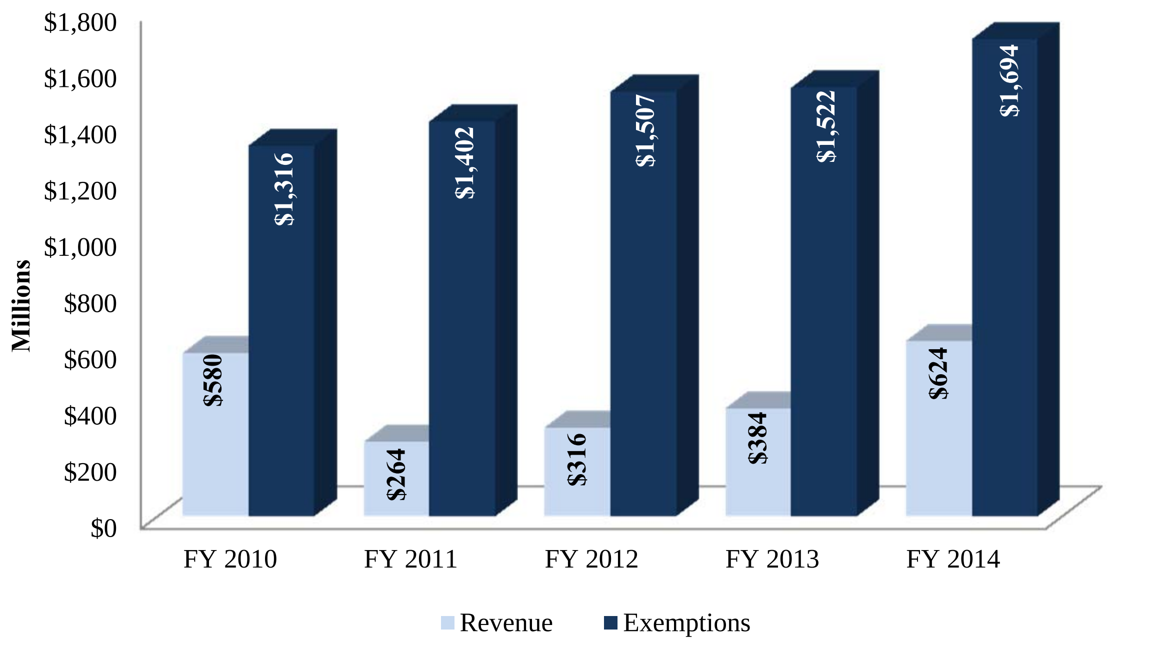
[5] Eleven are natural gas exclusions, suspensions or special rates; 11 are oil deductions, suspensions, special rates, or incentives; and one is a mineral exemption.

Corporate Income and Franchise Taxes. Louisiana levies both a corporate income tax and a corporate franchise tax. The corporate income tax is paid by all corporations or entities taxed as corporations for federal income tax purposes on income earned in the state. Louisiana and 43 other states levy a corporate income tax. Louisiana has a five-tiered corporate income tax structure, with rates of 4%, 5%, 6%, 7%, and 8%. Twenty states, including Louisiana, also impose a corporate franchise tax. The tax is levied on either 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, whichever is larger. Combined corporate income and corporate franchise taxes are projected to provide 6%, or $497,012,268, of state tax revenue collections in fiscal 2015.

Fifty-three (53) corporate income tax exemptions[6] and 37 corporate franchise tax exemptions[7] are available to business taxpayers. The top corporate income tax exemptions for fiscal year 2014 were Subchapter S Corporation, inventory tax/ad valorem tax credit, net Louisiana operating loss, and the constitutionally required federal income tax deduction. As with the individual income tax, only Louisiana, Alabama, and Iowa allow full deductibility of federal income taxes. Exhibit 9 summarizes the amount of revenue collected in corporate income and franchise taxes compared to the amount of corporate income and franchise tax exemptions since fiscal year 2010.

Together, the corporate income and franchise tax exemptions were almost $1.7 billion in fiscal 2014 compared to $624 million in revenue.

Exhibit 5 – Corporate Income and Franchise Taxes and Exemptions Fiscal Years 2010 to 2014



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

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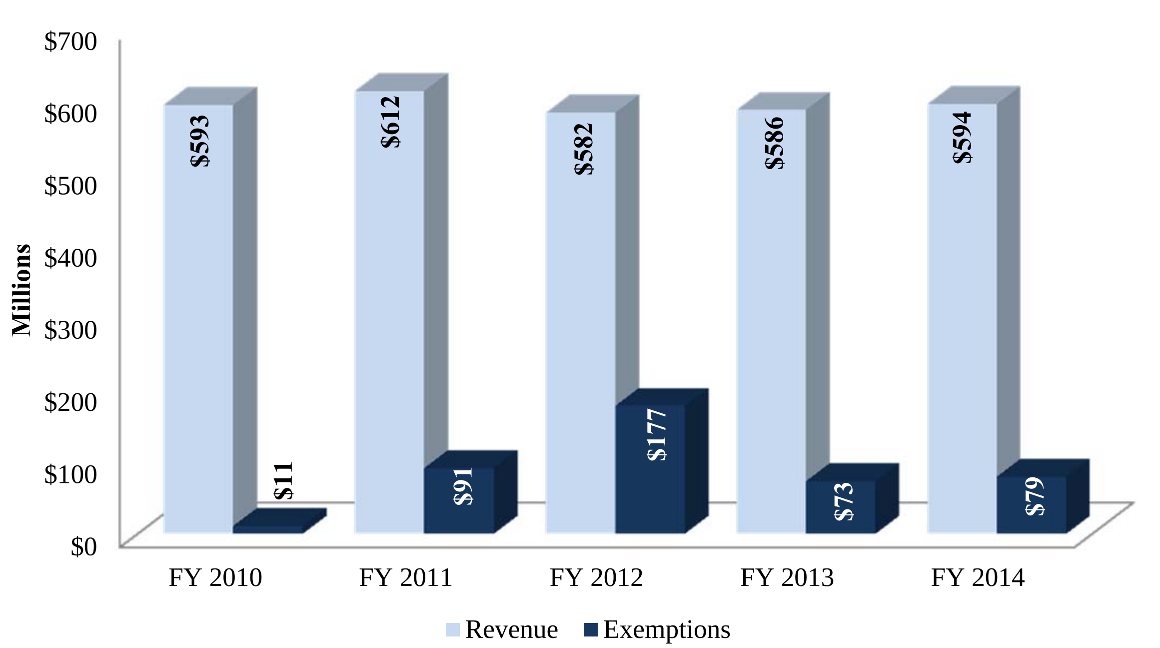
[6] Of the 53 exemptions, 10 are exemptions or exclusions, five are deductions, 36 are credits, one is a rebate, and one is an exemption required by the State Constitution.
[7] Of the 37 corporate franchise tax exemptions, nine are exemptions or exclusions, six are deductions, and 22 are credits.

> Louisiana charges 20.01 cents per gallon for both gasoline and diesel fuel. The state's gasoline tax ranks 41st lowest in the nation, while its diesel fuel tax is 42nd lowest.

Petroleum Taxes. Petroleum taxes include taxes on gasoline and special fuels, such as diesel fuel. The federal government imposes a flat 18.4 cents per gallon tax for gasoline and 24.4 cents per gallon for diesel fuel (special fuels), but state tax rates vary widely. Across the country, state gasoline tax rates range from a high of 55.30 cents per gallon in Pennsylvania to a low of 12.25 cents per gallon in Alaska. Combined, the taxes on these items were expected to account for 8%, or $608,361,030, of tax revenue collected in Louisiana in fiscal year 2015.

Louisiana has 15 exemptions[8] for petroleum products, including exemptions for school bus drivers, commercial fishermen, farmers, and aviation fuel. Exhibit 6 summarizes the amount of revenue collected in petroleum taxes compared to the amount of exemptions since fiscal year 2010.

Exhibit 6 − Petroleum Taxes and Exemptions
Fiscal Years 2010 to 2014



Source: Prepared by LLA using data from LDR Annual Reports and Tax Exemption Budgets.

8 Six are gasoline exemptions, refunds or discounts; three are special fuels refunds or discounts; four are inspection fee exemptions; and two are exemptions required by the federal government.

Other Taxes. In addition to the major taxes described previously, Louisiana's 2014-2015 Tax Exemption Budget lists seven other categories of taxes and their associated exemptions. Collectively, these taxes were projected to bring in about $262 million in revenue during fiscal year 2015, or approximately 3% of the total tax revenue. In contrast, there were $88 million in exemptions for these taxes during fiscal year 2014. The taxes are:

- Gift Taxes
- Hazardous Waste Disposal Taxes
- Inheritance Taxes
- Liquors-Alcoholic Beverages Taxes
- Public Utilities and Carriers Taxes
- Telecommunication Taxes
- Tobacco Taxes

Tax Incentives and Exemption Contracts. The Tax Exemption Budget also lists 28 Tax Incentives and Exemption Contracts. These incentive and exemption contracts are designed to encourage businesses to locate in the state, expand operations, and target disadvantaged communities for economic development and jobs, among other things. The exemptions can be sales and use tax rebates, or they can be exemptions, rebates, and credits for individual and corporate income taxes, corporate franchise taxes, or other taxes levied by the state. The 2014-2015 Tax Exemption Budget estimates there were more than $456 million in these exemptions during fiscal year 2015. Among the Tax Incentives and Exemption Contracts are:

- Motion Picture Investor Tax Credit
- Enterprise Zones
- Louisiana Quality Jobs Program
- Research and Development Tax Credit
- New Markets Tax Credit.

Louisiana's Process for Reviewing Tax Exemptions

In a January 2015 report[9] by the Pew Center, Louisiana was cited among 10 states that have developed a process to review economic development tax incentives. While Louisiana law does include some provisions that require reporting of certain exemptions and require that specific legislative committees review certain tax exemptions, these provisions do not include all tax exemptions, do not include specific criteria for how to review exemptions, and are not always followed. Louisiana could improve its current process by developing a more comprehensive and systematic strategy to review all of its tax exemptions on a regular basis. Exhibit 10 summarizes current statutes outlining Louisiana's review process and the compliance status of the entities involved.

Exhibit 10
Laws Related to Tax Exemption Review

Law	Description	Compliance Status
Act 836 of 1989 (R.S. 47:1517)	Requires the Department of Revenue to compile a Tax Exemption Budget every year with information on every tax exemption and its revenue loss for the last five years. The budget should also include an assessment of each tax exemption based on four criteria, including: 1) whether the exemption has been successful at meeting the purpose for which it was enacted; 2) whether each tax exemption is the most fiscally effective means of achieving its purpose; 3) whether the exemption has any unintended or inadvertent effects; and 4) whether each exemption simplifies or complicates state tax statutes.	While LDR issues a Tax Exemption Budget, a full assessment of each tax exemption using all of the criteria in law is not included in the document.
Act 365 of 2011 (R.S. 47:1517 (F))	Requires the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs to conduct hearings on the Tax Exemption Budget in odd-numbered years to analyze and consider tax exemptions that have caused revenue loss to the state of $10 million or more in any of the last three fiscal years and from time to time committees may report findings or recommendations as a result of those hearings.	While these committees may meet and discuss various instruments related to tax exemptions during session, a review of archived recordings shows that no hearings were held to specifically address these exemptions.
Act 191 of 2013 (R.S. 47:1517.1)	Requires every state agency that oversees tax credits and rebates to compile a report containing information on whether the incentive has met its purpose, whether the state receives a positive return on investment and other economic benefits, and any unintended or inadvertent effects of the incentive, including whether it conflicts with state law. The law also requires that both the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs hold hearings in odd-numbered years to consider these reports.	A 2015 LLA audit found that only three of the six state agencies had submitted the required reports by March 23, 2015.

Source: Prepared by LLA staff using Louisiana Revised Statutes, review of the Tax Exemption Budget, review of committee meetings, and LLA audit on Act 191 compliance issued in May 2015.

[9] The Pew Charitable Trusts research brief is entitled *Tax Incentive Programs − Evaluate Today, Improve Tomorrow.*

Revenue Study Commission. Although not all the requirements in law were followed, the Legislature passed Senate Concurrent Resolution (SCR) 103 in 2012, which created the Revenue Study Commission. The purpose of the Commission was to determine the most effective economic models to determine the economic impact of tax preferences, use the models to identify low-performing or antiquated tax preferences, and recommend temporary or permanent reduction or elimination of the low-performing or antiquated tax preferences. As part of their work, commission members held 12 hearings with testimony from stakeholders and issued a report. The report identified 53 tax preferences that "needed legislative action," but did not explicitly state what kind of action was needed. The report also identified the following overall issues with the state's tax exemption policies:

- **The legal authority for most tax exemptions lacks specific justifiable benefits in relation to their cost.** A requirement for the reporting of specific achievements related to the receipt of preferential tax treatment would help future legislatures.

- **Little to no data exists for many tax exemption programs, which prevents real consideration of actual outcomes.** Mandatory reporting and collection of specific data could facilitate future policy review.

- **There is little to no formal review or oversight of a tax exemption's function and outcomes or enactment.** When feasible, a sunset schedule or other formal review process could be used to provide for periodic cost-benefit analyses to measure the success in achieving outcomes.

The Commission's report also suggested that the Legislature put an annual cap on tax exemptions and allow more time between the introduction of a tax exemption and its enactment so that in-depth research on its potential cost can be conducted. Since the report was completed, some efforts have been made related to tax exemptions. For example, new legislation passed during the 2015 Regular Session that creates additional review processes for specific tax credits (Act 357), and other legislation requires the Revenue Estimating Conference to establish a forecast of incentive expenditures each fiscal year, and creates the Sales Tax Streamlining and Modernization Commission to study Louisiana's state and local sales and use tax structures. Temporary changes were also made to certain tax exemptions. For example, certain corporate deductions, exclusions, and credits were reduced for three years.

Other Louisiana Tax Studies. The Legislature also commissioned the Louisiana Tax Study by Dr. James Richardson of Louisiana State University and Dr. Steven Sheffrin and Dr. James Ahm of Tulane University that included specific recommendations related to certain taxes and exemptions. More recently, recognizing that Louisiana faces a long-term structural deficit, the Louisiana Tax Foundation published its review of Louisiana's tax system entitled *Louisiana Fiscal Reform: A Framework for the Future* that included several recommendations for revising and/or eliminating the state's taxes and exemptions. The Public Affairs Research Council of Louisiana also released its recommendations on controlling state spending, one of which was to reduce certain tax credits and sales tax exemptions.

Although there have been numerous efforts in the form of commissions and studies and Louisiana has laws establishing general processes for reviewing tax exemptions, the state lacks a systematic, strategic, and consistent approach for reviewing its exemptions. Pew advises states to evaluate tax exemptions[10] regularly and rigorously through the development of a plan that contains various elements (*see box at right*). Because the elements Pew outlines would help address many of the issues the Revenue Study Commission identified in its 2013 report, the Legislature may want to consider revising the current process by considering the recommendations below.

According to Pew, state review processes should include a plan with the following elements:

1. Assign responsibilities for evaluation
2. Identify clear, measurable goals for each exemption
3. Access reliable and relevant data
4. Ensure that future incentives will be evaluated effectively

Requiring that tax exemptions have performance statements that specify the measurable purpose or benefit of the exemption would help make a review more meaningful. The Revenue Study Commission's report found that the legal authority for exemptions lacked specific justifiable benefits in relation to their cost. According to its report, if the legal authorization contained a clear public policy purpose and desired outcome for specific beneficiaries, meaningful review could occur to determine whether the purpose and outcome were achieved. Several states, including Arizona, Colorado, New Mexico, and Vermont require that legislation creating new tax exemptions specifically define the goals to avoid any confusion about legislative intent when the programs are reviewed later. Washington requires that each new tax exemption have a "performance statement" that includes the purpose of the exemption, how the state will know whether the program accomplished its goal, and what data are needed to conduct a review.

Developing a systematic review process that includes what, when, who, and how exemptions will be reviewed would help ensure that all exemptions are reviewed strategically using similar criteria. Most states in the Pew study have adopted schedules to study different groups of incentives each year rather than trying to review all exemptions at once. Pew suggests that review schedules be strategic and based on specific criteria. For example, reviewing tax exemptions with similar goals, such as the promotion of education, helps policy makers compare results and identify those with the greatest return on investment. Oregon, for example, reviews similar tax credits together while Alaska reviews incentives based on the state agency that administers them. Washington previously organized its reviews around the date the exemption was enacted but revised its selection criteria and reviews all exemptions affecting similar industries, such as the agriculture industry, at one time.

Reviews could also be coordinated around sunset dates. In 2009, Oregon placed sunsets on most of its tax credits, and it schedules evaluations to finish in the months preceding sunset dates. In most states, specific incentives are reviewed at least once every three years. Some states have longer cycles. For example, Washington conducts reviews every 10 years because it reviews all exemptions, including incentives, credits, and deductions, and all of them have a 10-year sunset date.

Determining who specifically will conduct the evaluation is another important element in an overall plan. Some states have multiple agencies that conduct evaluations. For example, Florida's Office of Economic and Demographic Research studies the effects of incentives on job creation and revenue, while the Office of Program Policy Analysis and Government Accountability recommends

[10] The Pew Charitable Trusts research brief is entitled *Tax Incentive Programs – Evaluate Today, Improve Tomorrow.* Although this brief focuses on economic development incentives, the same criteria could be applied to all tax exemptions.

how state agencies can administer incentives more effectively. Washington created a Citizen Commission for Performance Measurement of Tax Preferences that consists of certain legislators, the state auditor, and gubernatorial and legislative appointees. Legislative audit staff are responsible for reviewing tax exemptions using specific criteria, such as past and expected future fiscal impacts, and providing the Commission with a recommendation as to whether a tax preference should be continued without modification, modified, scheduled for a sunset review at a later date, or terminated immediately. Other states have external parties review exemptions. For example, Mississippi passed legislation in 2014 requiring the University Research Center, which is run by the state economist, to review all economic development tax incentives at least once every four years.

Selecting what criteria will be used in the review is important for ensuring that all exemptions are reviewed with the same level of scrutiny. Washington answers 11 questions in its review, including an assessment of the various impacts on taxpayers and the government if the exemption is continued or terminated. Other questions involve whether public policy objectives were met and whether other states have similar exemptions.

As noted previously, Louisiana has a large number of tax exemptions — 464 — and just 52 have sunset provisions that set a specific time for the legislation to expire unless lawmakers take action beforehand. That means the vast majority of Louisiana’s tax exemptions are essentially continuing without evaluating their value or benefit. As the Legislature continues to look for money to make up the state's budget shortfalls, it is important for lawmakers to have a systematic and robust review process for reviewing tax exemptions.

> **Matter for Legislative Consideration 1:** The Legislature may wish to consider requiring that all new or modified tax exemptions contain clear performance statements that include their public purposes and expected outcomes.

> **Matter for Legislative Consideration 2:** The Legislature may wish to consider developing a schedule for how often reviews should be conducted or include sunset dates on all exemptions that dictate when they should be reviewed.

> **Matter for Legislative Consideration 3**: The Legislature may wish to consider designating who specifically will conduct reviews of tax exemptions and what criteria will be used for the reviews.

APPENDIX A: SCOPE AND METHODOLOGY

We produced this report under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. Our review focused on Louisiana's tax revenues, exemptions, and process for reviewing these exemptions. To gather information for this report, we performed the following steps:

(1) Reviewed Louisiana Department of Revenue's Tax Exemption Budgets and Annual Tax Collections reports and input relevant data for analysis and presentation.

(2) Reviewed state law for provisions related to reviewing tax exemptions.

(3) Interviewed legislative staff, reviewed legislative instruments, and observed legislative hearings and committees.

(4) Reviewed the Revenue Study Commission's report, the Louisiana Tax Study, and the Tax Foundation's *Louisiana Fiscal Reform: A Framework for the Future*.

(5) Reviewed research and reports from the Pew Charitable Trusts on tax incentives.

(6) Interviewed Washington's Joint Legislative Auditor and Review Committee on their process from reviewing tax exemptions.

(7) Sent draft report to various stakeholders for their review and comments, including House Fiscal Division, Louisiana Department of Revenue, Senate Finance, and Louisiana Fiscal Office.

APPENDIX B: TOP TAX EXEMPTIONS BY CATEGORY

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
INDIVIDUAL INCOME TAXES				
Federal Income Tax Deduction	A deduction is allowed for federal income tax on income that Louisiana (LA) income tax is paid. This deduction's purpose is to shelter from taxation the portion of a taxpayer's income that represents federal income taxes paid.	$735,538,062	$812,240,240	$828,485,000
Excess Federal Itemized Deduction	A deduction is allowed for a portion of the federal itemized deductions that were in excess of the federal standard deduction. This deduction's purpose is to shelter a portion of a taxpayer's income from state income tax.	344,150,831	345,814,068	352,730,000
Personal Exemption-Standard Deduction	Taxpayers are allowed a deduction from tax table income ($4,500 for taxpayers filing single or separate returns and $9,000 for taxpayers filing joint returns or as head of household, deducted from the lowest tax bracket). This deduction's purpose is to shelter a portion of a taxpayer's income from state income tax.	245,196,119	247,790,109	252,750,000
Social Security Benefits	Social Security benefits received by individuals that are taxable for federal purposes may be excluded from LA taxable income. This exclusion's purpose is to shelter Social Security benefits from the income tax.	78,174,450	86,235,211	87,960,000
Net Income Taxes Paid to Other States	A credit is allowed for taxes paid to other states. This credit's purpose is to allow taxpayers to deduct the income tax paid to other states on income also taxed by LA, so as not to subject the taxpayer to double taxation.	71,427,762	86,173,191	87,897,000
State Employees, Teacher, and Other Retirement Benefits Exclusion	Individuals receiving benefits from certain retirement systems are allowed to exclude those benefits from their LA taxable income. This exclusion's purpose is to shelter certain retirement benefits from the income tax.	77,896,926	85,699,930	87,414,000
Earned Income Tax Credit	A credit is allowed for LA residents who are eligible for the federal Earned Income Tax Credit. The credit is equal to 3.5% of the federal earned income tax credit taken on a resident's federal income tax return.	46,170,871	47,849,187	48,806,000

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
Deduction for Net Capital Gains	Taxpayers are allowed a deduction for net capital gains, limited to gains recognized and treated for federal income tax purposes as arising from the sale or exchange of an equity interest in or substantially all of the assets of a non-publicly traded corporation, partnership, limited liability company, or other business commercially domiciled in this state.	$34,240,997	$44,745,527	$45,640,000
LA Citizens Property Insurance Corporation Assessment	A refundable credit is allowed in the amount of surcharges, market equalization charges, or assessments paid by taxpayers as part of their homeowner's insurance premium as a result of assessments levied by the LA Citizens Property Insurance Corporation due to Hurricanes Katrina and Rita.	40,537,244	41,271,204	42,097,000
Other Exemptions		254,186,732	266,887,024	269,824,000
Total		**$1,927,519,994**	**$2,064,705,691**	**$2,103,603,000**
SALES TAXES				
Non-Residential Electric Power or Energy	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. As the sale of electricity for residential use is constitutionally protected, this exemption benefits the non-residential users of electrical utility services.	$319,187,558	$403,401,490	$411,670,000
Food for Preparation and Consumption in the Home	The LA Constitution prohibits the taxation of food sold for preparation and consumption in the home. Sales of foods prepared by a business do not qualify for the exclusion and are subject to LA sales tax. This prohibition's purpose is to provide financial relief to the general public on food purchases.	387,523,862	392,543,307	400,394,000
Gasoline, Gasohol, and Diesel	The LA Constitution prohibits the taxation of fuel that is subject to the road-use excise tax, which includes most gasoline, gasohol, and diesel. (Some gasoline and gasohol are not subject to road-use excise tax but are exempt from sales tax under R.S. 47:301(D)(1)(a) or R.S.47:305.28). The purpose of this prohibition is to give a tax-break to consumers.	301,026,374	365,837,353	373,154,000
Drugs Prescribed by Physicians or Dentists	This exemption allows drugs prescribed by a physician or dentist and drugs that are dispensed to patients by hospitals under orders of the physician to be purchased free from sales tax. The purpose of this prohibition is to provide financial assistance to consumers.	288,473,004	283,653,094	289,326,000

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
Residential Electric Power or Energy	The LA Constitution prohibits the taxation of natural gas, electricity, and water sold directly to the consumer for residential use. This exclusion's purpose is to benefit the residential consumers of electrical utility services.	$176,801,540	$197,926,721	$201,885,000
Purchases by State and Local Governments	This exclusion allows all LA boards, agencies, or commissions or any local authority within LA to purchase or rent/lease tangible personal property, or receive services without being subject to general sales tax by excluding LA state and local governments from the definition of person. This exclusion's purpose is to remove governmental authorities from taxation.	210,532,149	195,649,046	199,562,000
Purchases of Manufacturing Machinery and Equipment	This exclusion allows eligible manufacturers to purchase manufacturing machinery and equipment (including that used by an industrial manufacturing plant to generate electric power for self-consumption or cogeneration) free from LA sales, use, lease, and rental tax.	60,436,437	73,448,402	74,917,000
Sales of Motor Vehicles to be Leased or rented by Qualified Lessors	This exemption allows the tax-free purchase of motor vehicles, trailers, and semi-trailers used exclusively for leases or rentals.	47,216,045	50,959,509	51,979,000
Other Exemptions		872,253,593	1,010,944,421	1,145,268,000
Total		**$2,663,450,562**	**$2,974,363,343**	**$3,148,155,000**
SEVERANCE TAXES				
Natural Gas Suspensions: Horizontal Wells	Any well drilled or recompleted horizontally shall have all severance tax suspended for 24 months or until payout of the well is achieved, whichever comes first. Payout of well cost shall be the cost of completing the well to the start of production. This tax suspension encourages the drilling of horizontal wells.	$227,564,460	$140,447,512	$143,256,462
Oil Special Rates: Stripper Oil	An oil well incapable of producing an average of more than 10 barrels of oil per producing day for the entire taxable month is eligible for a special reduced tax rate of 3.125% of value. This special rate's purpose is to encourage the continued production from stripper oil wells.	47,016,971	51,181,293	52,204,919
Oil Suspensions: Tertiary Recovery	This suspension provides that no severance tax is due on crude oil produced from a qualified tertiary project approved by the Department of Natural Resources until the project has reached payout. This suspension's purpose is to provide financial assistance to producers undertaking large-scale carbon dioxide injection projects.	40,789,524	30,090,101	30,691,903

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
Oil Suspensions: Inactive Wells	Oil wells returned to service after being inactive for two or more years or having 30 days or less production for the past two years were allowed a severance tax exemption for five years.	$62,989,223	$52,264,071	$30,000,000
Natural Gas Special Rates: Incapable Gas-Well Gas	Gas produced from gas wells that are determined by the Secretary to be incapable of producing an average of 250,000 cubic feet of gas per day is eligible for a special reduced tax rate of 1.3¢ per MCF. This special rate's purpose is to encourage continued production from low-producing gas wells.	23,617,328	18,241,026	18,605,846
Oil Special Rates: Incapable Oil	An oil well incapable of producing an average of more than 25 barrels of oil per producing day, and producing at least 50% salt water, and having no capable well on the lease is eligible for a special reduced tax rate of 6.25% of value. This special rate's purpose is to encourage continued production from low-volume wells.	13,930,093	14,426,418	14,714,946
Oil Suspensions: Horizontal Wells	Any well drilled or recompleted horizontally will have all severance tax suspended for 24 months or until payout of the well is achieved, whichever occurs first. Payout of well cost is the cost of completing the well to the start of production. This tax suspension encourages the drilling of horizontal wells.	7,667,963	10,000,000	10,000,000
Oil Suspensions: Deep Wells	The severance tax on oil wells drilled to a true vertical depth of more than 15,000 feet is suspended for a period of 24 months or until payout of the well cost, whichever occurs first. This tax suspension's purpose is to encourage oil operators to invest in the drilling of deep wells.	20,076,267	6,230,616	6,355,228
Natural Gas Exclusions: Consumed in Field Operations	An exclusion is allowed for gas used or consumed for fuel in maintaining the operation of a field. This exclusion's purpose is to provide financial assistance to qualifying producers.	6,527,678	5,113,629	5,215,901
Natural Gas Suspensions: Deep Wells	The severance tax on gas wells drilled to a true vertical depth of more than 15,000 feet is suspended for a period of 24 months or until payout of the well cost, whichever occurs first. This tax suspension's purpose is to encourage gas operators to invest in the drilling of deep wells.	7,411,805	3,790,037	3,865,838
Other Exemptions*		5,295,788	4,675,691	3,793,691
Total		**$462,887,099**	**$352,425,040***	**$328,195,677***

*These numbers are what is reported in the total revenue in the TEB; however, the rows do not total to these reprinted numbers.

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
PETROLEUM TAXES				
Federally Imposed Exemptions: Interstate Gasoline and Diesel Shipments/Exports	Gasoline or undyed diesel fuel exported to any other state is exempt from the tax only when the tax of the destination state is remitted to the supplier for that state (unless gasoline or undyed diesel fuel is transported and delivered in the fuel supply tank of a highway vehicle). Exports to a foreign country are also exempt if the bill of lading indicates the foreign destination. These exemptions' purpose is to comply with taxation prohibitions of the U.S. Constitution.	$61,311,250	$67,983,600	$80,000,000
Gasoline Tax Discount: Discount for Timely Filing and Payment by Suppliers	Suppliers and permissive suppliers that file a timely return and remit a timely payment are allowed to deduct an administrative discount of 1.5% of the tax due on gasoline fuels (if the supplier allows a deduction of 1% to a purchaser with a valid distributor or importer license).	7,755,900	6,998,900	7,000,000
Special Fuels/Diesel Fuels Tax Discount: Discount for Timely Filing and Payment by Suppliers	Suppliers and permissive suppliers that file a timely return and remit a timely payment are allowed to deduct an administrative discount of 1.5% of the tax due on diesel fuels (if the supplier allows a deduction of 1% to a purchaser with a valid distributor or importer license).	2,299,900	2,038,100	2,100,000
Inspection Fee Exemption: Diesel Fuels Used in or Distributed to Seagoing Vessels	The inspection fee does not apply to fuels sold for use in or distributed to seagoing vessels. These vessels must also be in possession of an exemption certificate.	812,500	855,730	860,000
Inspection Fee Exemption: Exports of Gasoline or Diesel Fuels	The inspection fee does not apply to gasoline or diesel fuels that are exported from Louisiana.	587,500	679,700	700,000
Other Exemptions		570,325	533,729	565,000
Total		**$73,337,375**	**$79,089,759**	**$91,225,000**
CORPORATE INCOME TAXES (CIT) AND CORPORATE FRANCHISE TAXES (CFT)				
CIT: Subchapter S Corporation	Corporations classified as S corporations under Subchapter S of the Internal Revenue Code are required to file Louisiana corporation income tax returns. To arrive at taxable income Subchapter S corporations may exclude a percentage of their Louisiana net income (i.e. the percentage of total issued and outstanding shares of capital stock owned by LA "resident individuals"). This exclusion's purpose is to limit income taxation on Subchapter S corporation income to either the corporate or shareholder level.	$477,482,318	$524,423,811	$534,912,000

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
CIT: Inventory Tax/Ad Valorem Tax Credit	A refundable tax credit is allowed for ad valorem taxes paid to political subdivisions on inventory held by manufacturers, distributors, and retailers. The credit is equal to 100% of the ad valorem tax paid.	$407,849,402	$441,097,424	$449,919,000
CIT: Net Louisiana Operating Loss	Corporations are allowed to carry a net operating loss deduction back for three years and forward for 15 years. This deduction allows corporations to offset losses made in one tax year with income earned in another.	318,106,502	358,682,227	365,856,000
CIT: Federal Income Tax Deduction	A deduction is allowed for federal income taxes paid on income taxed by Louisiana. This deduction's purpose is to reduce the corporate income tax burden.	174,461,066	200,062,758	204,064,000
CIT: Ad Valorem Tax Credit for Offshore Vessels	A credit is allowed for ad valorem taxes paid on vessels that operate principally in Outer Continental Shelf Lands Act Waters. The credit is equal to 100% of taxes paid.	28,475,503	30,616,933	31,229,000
CIT: Wind and Solar Energy System	A credit is allowed for the cost of purchase and installation of a wind energy system or solar energy system, or both, by a taxpayer at their residence located in Louisiana, by a taxpayer who owns a residential rental apartment project, or by a taxpayer who purchases and installs such a system in a residence or a residential rental apartment project which is located in Louisiana. (This credit was limited in July 2013 and will be sunsetted for all systems in December 2017.)	14,895,799	31,708,798	30,000,000
CIT: Insurance Company Premium Tax	A credit is allowed for any premium taxes paid to the LA Insurance Commissioner. This credit's purpose is to allow an offset for the premium taxes paid.	23,602,003	25,503,898	25,997,000
CIT: Ad Valorem Tax Paid by Certain Telephone Companies	A credit is allowed for 40% of the total ad valorem taxes paid to LA political subdivisions by telephone companies on their public service properties which are assessed by the LA Tax Commission at 25% of fair market value.	24,097,188	22,643,842	24,000,000
CFT: Rehabilitation of Historic Structures	A credit is allowed for the eligible cost and expenses incurred during the rehabilitation of a historic structure located in a downtown development or a cultural product district. The credit is earned only in the year in which the property attributable to the expenditures is placed in service.	17,616,191	17,193,170	17,537,000

Name of Exemption	Description	FY 2013	FY 2014	FY 2015 Projected
CIT: Rehabilitation of Historic Structures	A credit is allowed for the eligible cost and expenses incurred during the rehabilitation of a historic structure (nonresidential real property or residential rental property only) located in a downtown development or a cultural product district. The credit is earned only in the year in which the property attributable to the expenditures is placed in service.	$7,837,164	$10,488,948	$10,699,000
Other Corporate Income Tax Exemptions		25,346,666	29,501,181	18,502,000
Other Corporate Franchise Tax Exemptions		2,196,071	2,130,533	2,173,000
Total		**$1,521,965,873**	**$1,694,053,523**	**$1,714,888,000**
TAX INCENTIVES				
Motion Picture Investor Tax Credit	Louisiana taxpayers that invest in state-certified motion-picture productions can earn a tax credit (to be applied to individual or corporate income taxes) at the time expenditures are made by a motion picture production company.	$148,203,276	$250,378,776	$255,386,000
Enterprise Zones	The Enterprise Zone Program is a jobs incentive program that creates income and franchise tax credits to businesses located in designated enterprise zones (areas with high unemployment, low income, or a high percentage of residents receiving public assistance) that create new jobs and hire at least 35% of their new jobs from one of four targeted groups. Because of the jobs creation, sales tax rebates may be available.	50,876,337	56,466,047	50,000,000
Louisiana Quality Jobs Program	The Quality Jobs Program is an incentive to encourage businesses to locate or expand existing operations in Louisiana and create quality jobs focusing on Louisiana Vision 2020 traditional and seed clusters industries.	51,318,246	55,779,923	59,476,000
Research and Development Tax Credit	The purpose of the research and development tax credit is to encourage new and continuing efforts to conduct research and development activities within this state.	24,232,875	25,895,753	26,415,000
New Markets Tax Credit	The purpose of the new markets tax credit is to encourage and attract private sector qualified equity investment in a qualified community development entity in the state.	21,969,519	19,503,726	19,000,000
Other Exemptions		26,307,664	46,055,726	46,048,000
Total		**$322,907,917**	**$454,079,951**	**$456,325,000**
Source: Prepared by legislative auditor's staff using information from the 2014-2015 Tax Exemption Budget.				