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Significant Louisiana Tax Reform

by **Kelley Rendziperis**, on Jan 15, 2025 7:00:00 AM

Louisiana is making significant strides to encourage economic growth by becoming more competitive from a tax standpoint. Since Governor Jeff Landry took office in January 2024, there have been several special legislative sessions to create more jobs, increase prosperity, lower taxes, and create sustainable budgets in what has been coined "Louisiana Forward." As part of those efforts, on December 4, 2024, Governor Landry adopted a tax reform package that will likely improve Louisiana's state tax ranking among states in the U.S.

As Site Selection Group mentioned in prior blogs, a state's tax environment is as important a consideration in the site selection process as economic incentives. In fact, often incentives are justified and utilized to offset adverse tax policies. Louisiana's new tax reform aims to lower corporate and personal income tax burdens to encourage the creation of more well-paying jobs.

Significant changes to the state's tax code

Personal income tax

Beginning January 1, 2025, Louisiana will transition to a flat tax structure. Individuals will pay a flat 3% rate on their taxable income. This will represent the second lowest rate in the U.S. of those states that impose an individual income tax.

Corporate income tax

As of January 1, 2025, Louisiana will also impose a flat tax for corporate income tax purposes at a rate of 5.5%. This rate will give the state the 13th lowest corporate income tax rate in the country. The governor originally proposed a further reduction in this rate and thus it may decrease more in the future.

Corporate franchise tax

Effective in 2026, the state will no longer impose a franchise tax. This tax on net worth is seen as disincentivizing investments in the state since a franchise tax is imposed on net worth, regardless of a company's income.

Depreciation

The Internal Revenue Service instituted the ability to fully expense capital investments in 2017 and Louisiana adopted this federal provision. However, the federal policy is being phased out which led the state to adopt a permanent measure of full expensing. This measure will assist companies by decreasing the cost of new capital investment and recouping investments faster. Notably, Oklahoma and Mississippi were the first states to make full expensing permanent.

Optional inventory tax

A small number of states, including Louisiana, impose tax on business inventories. This tax is imposed regardless of a company's profitability and significantly impacts businesses with large inventories in the state. House Bill 7 will allow voters to give parishes the authority to eliminate inventory taxes. Currently, the state provides a credit for inventory tax paid to a locality. Since several parishes rely heavily on inventory tax revenues, it is unlikely they will pass such a measure locally or there could be unintended consequences of raising tax millages to recoup the lost revenues. Furthermore, this measure may create additional intrastate competition for projects with high inventories depending on whether a parish has opted to tax inventories.

The trade-off for reduced tax revenues

Sales tax

To balance the income and franchise tax cuts, the state approved expanding the imposition of sales tax to certain services such as digital products effective January 1, 2025. Governor Landry originally proposed including a laundry list of services, but this measure failed and may be considered more thoroughly in the upcoming regular legislative session. Taxing digital goods has become common for many states to modernize tax codes.

In addition to expanding the tax base, the state will raise its sales tax rate to 5% starting in 2025 through 2029 and then it will be reduced to 4.75%. When including local sales tax rates, the state will continue to have the highest average combined rate in the U.S.

Impact on economic incentive programs

There were several measures that also impacted economic incentives in the state. These efforts reduced the annual budget of some existing economic incentive programs, improved procedures for certain programs, and added additional incentive programs specifically targeted at meeting the state's "Louisiana Forward" objectives.

1. Budgetary reductions

The following incentive programs administered by Louisiana Economic Development had budgetary adjustments:

- Motion Picture Production Program: The annual cap on this program is reduced from $150 million to $125 million beginning July 1, 2025.
- Research & Development Tax Credit: Historically, there was no annual cap on this program, but as of July 1, 2025, there will be a cap of $12 million.
- Historic Rehabilitation Tax Credits: The annual cap on this program is reduced from $125 million to $85 million beginning January 1, 2025.

2. Industrial Tax Exemption Program (ITEP) procedural improvements

In addition, in February 2024, the governor issued an executive order to revise the implementation of the existing Industrial Tax Exemption Program (ITEP). The ITEP provides a property tax abatement, capped at 80%, for manufacturing facilities for up to 10 years. The executive order contains the following measures:

- Eliminates the job requirement and bases qualification solely on capital investment
- Companies with existing ITEP contracts can opt out of job requirements
- Streamlines the process into nine steps rather than 15
- Creation of a local ITEP Committee, comprised of local elected officials, which will evaluate an ITEP application before consideration by the Board of Commerce and Industry

- Mega projects are eligible for up to a 93% exemption with local recommendations.

It is expected that further rules will be considered and adopted in the upcoming regular legislative session.

3. New targeted programs

In addition to tax reform and adjustments to existing programs, LED is considering implementing the following programs to further attract investments, foster growth, and promote a favorable business environment:

- High Impact Jobs Program: This is an effort to reward higher-paid jobs in rural areas
- Strategic Investment Fund: This fund would customize grants to assist specific needs such as training, etc.
- Site Development: The program would offer resources to assist in reducing time, risk, and cost with specific site needs.

These measures will likely be considered at the state's upcoming regular legislative session in April.

Conclusion

As asserted by the state, the goal of "Louisiana Forward" is to provide Louisiana with long-term fiscal stability and one of the most competitive tax codes in the nation, positioning the state as an economic powerhouse in the South. Many of these efforts should enhance the state's overall tax ranking. The regular legislative session should be interesting to see the potential expansion of taxable services from a sales tax perspective and to see the details of what new economic incentive programs may be implemented.

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