

## A Serious Debate on Taxes

Written by Treasurer John Kennedy  
Monday, 28 January 2013 13:14 -

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Every state relies primarily on one or more of three taxes to raise revenue: income, sales and property. None is perfect or pleasant. It's more a case of "pick your poison," and then try to achieve fairness by keeping rates low and the base broad, so everyone pays a little bit.

According to reports, Governor Jindal wants to abolish Louisiana's income tax on people and corporations and replace the revenue by 1) raising state sales tax (from 4 percent to 7 percent), 2) eliminating current sales tax exemptions, and 3) collecting sales tax on services.

Thank you, Governor, for originating this discussion. Every government should strive for a tax code that looks like somebody designed it on purpose.

Every taxpayer should understand better what he pays, how much and why.

Here are a few questions taxpayers should ask about the Governor's proposal:

Louisiana's median household income is \$41,734 (U.S. Census Bureau). Will a median household pay more or less in state taxes? How about those (in reasonable increments) above and below the median?

Will the Governor's proposal make Louisiana a more attractive place to do business for

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out-of-state companies and businesses (particularly small businesses) already here, and, if so, how many net new jobs (jobs created minus jobs lost) can we expect?

Will relying more on sales tax mitigate the revenue loss and unfairness from our “cash economy,” in which workers are paid in cash and choose not to pay income tax?

For planning purposes, will revenue under the new tax code be more or less volatile, and easier or harder to estimate?

Personal and corporate income taxes bring in about \$2.9 billion a year. The current 4% state sales tax brings in about \$2.6 billion a year. Will a 3% sales tax increase be enough to replace the \$2.9 billion loss?

How will Louisiana’s promising movie industry, which the state subsidizes with an income tax credit, be affected if there is no income tax to credit? Will homeowners have to continue to pay assessments to support the state’s property insurer of last resort (Citizens) if they no longer receive an income tax credit?

Which goods currently not subject to sales tax will now be taxed? Which services will be taxed?

Will the Governor’s proposal make Louisiana more or less attractive for retirees?

Local governments levy sales taxes too, some as much as 5%. How will a new state and local sales tax rate of 12% affect consumer behavior? Will this encourage “cross-border” shopping in nearby states and on the internet?

If consumers buy less because goods and services now cost more, will local governments (which don’t have an income tax) need to raise their sales tax and/or property tax rates? Will the Governor’s proposal make it harder for local governments to renew existing sales taxes for needs like schools, fire protection and flood control?

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If we swap income taxes for sales taxes, what assurance do we have future leaders won't reinstate the income tax or impose a state property tax (the constitution allows 5.75 mills) if revenues fall short (or even if they don't)?

Louisiana ranks 9th in state and local revenue per capita (Tax Foundation). Do we really have a tax and revenue problem, or do we have a spending and spending priorities problem? Couldn't we reduce income taxes without raising sales taxes by wasting less, such as by eliminating some of the state's 19,000 consulting contracts, reducing the annual 900,000 taxpayer-funded visits to expensive emergency rooms for nonemergency routine care, and making the bureaucracy less top heavy?

Thanks again, Governor. We look forward to seeing the details. Whatever the outcome, this debate is worth having.

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State Treasurer John Kennedy's column appears regularly in the Bossier Press-Tribune.