



MULTISTATE INCOME/FRANCHISE TAX

## Louisiana voters ratify constitutional amendment reducing tax rates and repealing federal income tax deduction

### Tax Alert

### Overview

On June 16, 2021, Louisiana enacted a series of bills designed to reduce the individual and corporate income tax rates and eliminate the federal income tax (FIT) deduction, subject to voter approval in a state-wide election and subsequent amendment of the Louisiana Constitution. The legislation also included provisions to continue the suspension of the franchise tax for small businesses and reduce the franchise tax rate. The constitutional amendment was ratified by Louisiana voters at a state-wide election held on November 13, 2021.

This Tax Alert provides a summary of certain provisions now in effect as a result of voter approval and amendment of the state constitution.

### Constitutional amendment reduces the maximum individual tax rate and eliminates the FIT deduction

[Senate Bill 159](#) as adopted amends Art. VII, Section 4 of the Louisiana Constitution, which in effect:

- Reduces the maximum allowable individual income tax rate from 6% to 4.75%; and
- Eliminates the mandate for the FIT deduction, thereby allowing the Louisiana legislature to determine deductibility.

These ratified amendments now allow for certain provisions of legislation described below to become effective for taxable periods beginning after December 31, 2021.

## Reduction to corporate income tax rates and repeal of corporate FIT deduction

[House Bill 292](#) as enacted contains the following corporate income tax changes:

- Reduces the highest marginal tax rate from 8% to 7.5%;
- Repeals the FIT deduction; and
- Reduces the number of tax brackets from five to three.

As a result of the constitutional amendment, these provisions are effective for taxable periods beginning on or after January 1, 2022.

## Reduction to individual income tax rates and repeal of individual FIT deduction

[House Bill 278](#) as enacted contains the following individual income tax changes:

- Reduces the tax rate on the first \$12,500 of net income from 2% to 1.85%; the next \$37,500 of net income from 4% to 3.5%; and all net income in excess of \$50,000 from 6% to 4.25%;
- Establishes a trigger for further tax rate reduction beginning April 1, 2024 if certain tax collection thresholds are met; and
- Repeals the FIT deduction.

As a result of the constitutional amendment, these provisions are effective for taxable periods beginning on or after January 1, 2022.

## Reduction to franchise tax rate and continued suspension of franchise tax for small business corporations

[Senate Bill 161](#) as enacted contains the following franchise tax provisions:

- Reduces the tax rate from \$3 to \$2.75 per \$1,000 of taxable capital above \$300,000 and eliminates the tax on taxable capital below \$300,000; and
- Establishes a trigger for further tax rate reduction beginning April 1, 2024, if certain tax collection thresholds are met.

As a result of the constitutional amendment, these provisions are effective for taxable periods beginning on or after January 1, 2023.

Senate Bill 161 also continued the suspension of the franchise tax on the first \$300,000 of taxable capital for small business corporations until July 1, 2023. This provision became effective as of June 16, 2021 with the Governor's signature on the bill.

### Get in touch

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