



MULTISTATE INCOME/FRANCHISE TAX

Louisiana legislation reduces income tax rates and repeals federal income tax deduction subject to voter approval

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 to be held on October 9, 2021. The legislation also includes provisions to continue the suspension of the franchise tax for small businesses and reduce the franchise tax rate. Additionally, some of the law changes are contingent upon an amendment to the Louisiana constitution reducing the maximum individual rate and eliminating the constitutional mandate for the FIT deduction.

This Tax Alert provides a summary of some of the provisions within these bills.

Proposed constitutional amendment to reduce the maximum individual tax rate and eliminate the FIT deduction

[Senate Bill 159](#) as adopted includes a proposal to amend Art. VII, Section 4 of the Louisiana constitution, which would:

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

Both amendments only become effective if ratified by voters during a state-wide election to be held on October 9, 2021.

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

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

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

Such amendments will be effective for taxable periods beginning on or after January 1, 2022, contingent upon ratification of the amendment provided for under Senate Bill 159.

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

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

- 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.

Such amendments will be effective for taxable periods beginning on or after January 1, 2022, contingent upon ratification of the amendment provided for under Senate Bill 159.

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 \$1000 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.

Both provisions will be effective for taxable periods beginning on or after January 1, 2023, contingent upon ratification of the amendment provided for in Senate Bill 159.

Senate Bill 161 also continues 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 and is not contingent upon ratification of the amendment provided for in Senate Bill 159.

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