

Jindal pushes for better business climate

New State Economic Competitiveness Group to tackle growth barriers

By Jaime Guillet
November 3, 2008

Louisiana made great strides this year when legislators removed corporate taxes that were considerable disincentives to companies planting or sustaining roots, but state leaders and the business community say those inroads are not enough to meet the state's distinct economic development challenges.

Gov. Bobby Jindal and his administration plan to address corporate roadblocks with a new economic development focus group tasked with making Louisiana more competitive in the business world.

When Rob Wollfarth's client recently approached him about converting his company to a limited liability corporation, he was not surprised to hear the executives' motives. Wollfarth, a corporate tax attorney and partner with Adams and Reese, said one of the biggest complaints from companies operating in Louisiana is the state corporate franchise tax. As an LLC, the company can avoid certain corporate taxes.

"It's always the first thing I hear right off the bat," Wollfarth said.

Louisiana's franchise tax is a \$1.50 duty on every \$1,000 of a company's taxable base up to \$300,000, including undivided profits, long-term debt, capital stock and surplus. The tax climbs to \$3 per every \$1,000 above \$300,000.

Wollfarth finds the state's inclination to tax corporate debt particularly stark.

"What corporation do you know that does not operate with a certain amount of debt? If you're in Louisiana we're going to tax that," he said incredulously. "What if a company borrowed half a million dollars? How much is that in taxes?"

Even if a company is headquartered out of state but has a "significant nexus" here, the franchise tax applies. This is why many companies will convert their Louisiana presence from a corporation to an LLC as his client, "a very large oil and gas exploration company" did recently, he said.

In the second 2008 special legislative session, lawmakers amended or repealed many burdensome corporate taxes, including a six-year phase out of the franchise tax.

But with the taxes that remain on the books and numerous other issues keeping the state uncompetitive — a dearth of a qualified work force, a lagging education system and poor infrastructure — Jindal established the new, four-person State Economic Competitiveness Group within Louisiana Economic Development.

LED Secretary Stephen Moret said the state has lost a large number of projects because of its unconventional business taxes, including the sales tax on manufacturing machinery and equipment, the franchise tax on corporate debt and the sales tax on business utilities and natural gas. All three were eliminated in the special session.

“Those taxes hurt us because so few of our competitor states charge them,” Moret said. “They made us look like a state that doesn’t value business investment because they increased the cost of doing business here.”

The SEC Group, which has two of its four spots filled, will consider what additional changes are needed to make Louisiana’s business tax structure more competitive “to increase investment, job creation and retention in our state,” Moret said.

Another problem Moret points to is Louisiana’s capital gains tax on personal business sales “that has caused many of our top entrepreneurs to move their residency — and often their business — out of state, typically to Florida or Texas, as their companies have grown in order to avoid paying a large tax on the ultimate sale of their business.”

“We haven’t yet completed our research on this tax and certainly are not recommending a change at this point, but this is an example of the kind of thing we need to carefully consider in creating a more competitive tax structure for our state’s future,” he said.

The nonpartisan Public Affairs Research Council conducted a study in 2002 of the corporate tax burdens in Southern states and identified the need for the four major tax reforms implemented this year. Now Louisiana must address quality of life issues that are hurdles for recruiting and retaining businesses, PAR research director Jennifer Pike said.