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Individual Income Tax

Louisiana Individual Income Tax Reform Effective for 2022 and Future Tax Years

On November 13, 2021, Louisiana voters approved Constitutional Amendment Number 2 ("CA2")[1], which amended Article VII, Section 4(A) of the Louisiana Constitution. With the adoption of this constitutional amendment, additional income tax statutory changes became effective.

The purpose of this guidance is to explain changes to Louisiana's individual income tax[2] and to encourage taxpayers to review their withholdings and estimated tax payments beginning with the 2022 tax year.

Note that there is no impact to the 2021 tax returns due May 16, 2022.

Constitutional Changes to Individual Income Tax

CA2 contained two major changes – one specific to individual income tax and one applicable to all Louisiana income taxes[3]:

1. Maximum income tax rate for individuals set at 4.75%; and
2. Federal income taxes paid may be deductible as provided by legislation.

For tax years before the 2022 tax year, Louisiana taxpayers receive a constitutionally mandated deduction for federal income tax liability. CA2 changes the nature of this deduction from constitutionally mandated to one that is permissible and authorizes the Legislature to provide for this deduction by statute.

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[1] *See* Act 134 (2021 Regular Session); CA2 was adopted by a vote of 223,269 (54%) in favor and 189,973 (46%) opposed.
[2] Other statutory changes were conditioned on the passage of CA2, including changes to corporation income and franchise tax. Separate guidance will be issued to explain business tax changes.
[3] Louisiana levies three types of income taxes: individual income, corporation income, and fiduciary income (such as trusts and estates). *See* LA R.S. 47:31.

Statutory Changes to Individual Income Tax

Act 395 of the 2021 Regular Session of the Louisiana Legislature contains several statutory changes to individual income tax, all of which became effective for the 2022 tax year upon the adoption of CA2:

1. Income Tax Rate Reduction[4]

Rates applicable to taxpayers with a filing status of single, married filing separately, or head of household:

Tax Bracket	Tax Years 2009-2021	Tax Years 2022 and After
$0 - $12,500[5]	2.00%	**1.85%**
$12,501 - $50,000	4.00%	**3.50%**
$50,000 and over	6.00%	**4.25%**

Rates applicable to taxpayers with a filing status of married filing jointly or qualified surviving spouse:

Tax Bracket	Tax Years 2009-2021	Tax Years 2022 and After
$0 - $25,000[6]	2.00%	**1.85%**
$25,001 - $100,000	4.00%	**3.50%**
$100,001 and over	6.00%	**4.25%**

2. Limitation on Excess Federal Itemized Personal Deductions

Through the 2021 tax year, taxpayers are entitled to Louisiana's Excess Federal Itemized Personal Deductions ("EID"). If a taxpayer itemized her deductions at the federal level via IRS Schedule A, she received a deduction for state tax purposes equal to the amount that the federal itemized deductions exceed the federal standard deduction. Such deductions include (1) medical expenses; (2) state and local taxes paid on income or sales tax, real estate taxes, and personal property taxes; (3) interest paid on home mortgages and mortgage insurance premiums; (4) charitable contributions; (5) casualty and theft losses; and (6) certain other deductions, such as gaming losses.

Beginning with the 2022 tax year, the EID is limited to medical expenses.[7] The calculation remains the same, except that medical expenses must be deductible at the federal level and exceed the federal standard deduction for the taxpayer's filing status.

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[4] Further rate reductions may be automatically effective in future years as provided by LA R.S. 47:32.1.
[5] *See* LA R.S. 47:32(A)(1), 294, and 295(B); the combined personal exemption, standard deduction, and other exemption deductions must be deducted from the lowest tax bracket first and then the remaining brackets in increasing order.
[6] *Id.*
[7] *See* Internal Revenue Code Section 213(d) and IRS Publication 502.

3. Repeal of Federal Income Tax Deduction

The federal income tax deduction is repealed beginning with the 2022 tax year. Individuals may not deduct their federal tax liability in the calculation of Louisiana taxable income.

Revisions to Withholding Tax Tables and Formulas

To implement these constitutional and statutory changes, the Louisiana Department of Revenue (the "Department") will revise several regulations in Title 61 of the Louisiana Administrative Code as well as state income tax returns, schedules, instructions, and other guidance as necessary.

In conjunction with this bulletin, the Department has issued an Emergency Rule to modify the withholding tax tables and the withholding formulas that employers and payroll companies must use to calculate the correct amount of taxes to withhold from employees' wages. These changes to the withholding tax tables and formulas account for the reduced income tax rates and the repeal of the federal income tax deduction. Pursuant to LA R.S. 47:112 and the Emergency Rule, employers must use these revised tables or formula (*see* page 16 of 17) to deduct tax for wages paid on or after January 1, 2022.

Guidance to Louisiana Individual Taxpayers

In general, individuals may expect less state tax withheld from their wages and an overall increase in net wages per pay period due to the new state income tax rates. The revised withholding tax tables and formulas are structured to ensure correct withholding based on the three new state income tax rates without allowance for the federal income tax deduction.

The tables and formulas do not account for other types of income that is not subject to withholding, such as interest, dividends, gains, and pass-through income (including profits from small businesses such as LLCs). If a taxpayer has forms of income other than wages from an employer and reported on IRS Form W-2, the taxpayer should consider one or more of the following:

1. Review, and revise if needed, the Employee Withholding Exemption Certificate (L-4)

The Employee Withholding Exemption Certificate is completed by an employee (generally at the start of employment) and is used by an employer to calculate the withholding amount from each wage payment. An employee with income from other sources should consider decreasing the number of exemptions or dependents claimed or increase the amount to withhold each pay period.

2. Remit estimated tax payments

Individuals may declare estimated income and remit estimated tax payments to the Department.[8] Estimated tax payments may be remitted electronically via any of the Department's online tools or by mail using LDR Form IT-540ES.

For more information on estimated tax payments, refer to LDR Form IT-540ES Instructions.[9]

Louisiana individual taxpayers are strongly encouraged to review and revise their Employee Withholding Exemption Certificate on file with their employer and consider whether estimated tax payments are necessary. Absent these steps, starting with the 2022 tax year, individuals with other income should expect to owe additional state income tax when filing their Louisiana income tax returns instead of receiving a refund of an overpayment of tax.

Kimberly J. Lewis
Secretary

[8] Estimated tax payments must be remitted if estimated income tax after credits and withholdings is expected to exceed $1,000 for single filers and $2,000 for joint filers. Absent one or more exceptions, the failure to remit estimated tax payments will subject the taxpayer to a penalty of 12% annually of the underpayment amount for the period of underpayment.

[9] The 2022 LDR Form IT-540ES and Instructions will be posted on the LDR Website on January 18, 2022. Links will be added at that time.