

State tax breaks on auto-pilot despite deficits

If one is powerful enough, the government giveth and never taketh away. That's one of the real problems with state tax breaks targeted to specific industries and businesses, according to an insightful new report from the Louisiana Budget Project.

Nearly half of state revenue that could be collected is foregone in tax breaks, or what is known in the business as "tax expenditures." That is, those are expenditures not from the treasury directly but through the tax code.



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"Louisiana will spend approximately \$8 billion in state revenues next fiscal year through the state budget," the report said. "The state also will spend another \$7 billion-plus through what might be called the hidden budget."

The Budget Project is a four-year-old project of the Louisiana Association of Nonprofit Organizations and is part of a network of state think tanks associated with the liberal-leaning Center on Budget and Policy Priorities in Washington, D.C.

The report said tax expenditures are authorized in 441 different statutes or exceptions, some of them embedded in the Louisiana Constitution. As the report notes, many of those tax expenditures are for perfectly reasonable concepts, such as the exclusion from sales tax of groceries and residential utilities.

That exclusion was part of the landmark 2002 Stelly tax reforms, named for then-Rep. Vic Stelly, of Lake Charles. No one is talking about repealing that tax break.

"It includes a lot of worthwhile things," said Eddie Ashworth, director of the budget project, of the \$7 billion. "We hugely support the exemption on sales taxes for groceries, drugs and residential utilities."

Still, as the report said, the tax breaks are worth a lot. "Every penny Louisiana spends should have a purpose, and every purpose should be scrutinized by the public and elected officials," the report said. "The needs of the state are too great to allow billions of dollars a year to be spent without any evaluation of whether it is doing the job intended or taking away from a higher-priority need."

The real money is to be found in the more targeted tax exemptions — targeted at one time, and then left on auto-pilot, sometimes for decades.

Hard times on the farm might provoke lawmakers to exempt farm equipment from sales tax, for example. Then, the break goes on and on, likely never questioned, or if so, ferociously defended by the special interest it protects — whether or not farm prices have gone up or down since. Farmers are hardly alone; many tax breaks are treasured perks for specific industries.

The LBP report noted a 1994 law exempts the first two months of severance taxes for horizontal drilling wells, a break intended to help a struggling oil and gas industry and boost a new technology for that time.

Today, horizontal wells are capturing the vast wealth of the Haynesville Shale — something the private sector would do on its own — but those wells continue to get the tax break. That's projected to be close to \$200 million in the fiscal year starting July 1.

Further, it's almost impossible to repeal a tax break. The constitution requires a two-thirds vote of legislators to eliminate a tax break, the same vote required to increase taxes or institute a new tax.

"This disparity makes it difficult for legislators to prioritize state spending," the LBP report said. "It allows a minority of legislators to continue allocating scarce state resources to a low-priority or even obsolete tax expenditure, at the expense of more important state services."

The full report is available on the Internet at <http://www.labudget.org>.

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