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OPINION

OUR VIEWS

Stelly repeal hurt the state

"It didn't have to be this way."

That is the opening of a pungent analysis of Louisiana's blunder in delivering huge income tax cuts while the state was on the brink of recession.

And while there's a good case for cutting some state spending and vastly increasing efficiency in state government, the fact is that today's budget crisis is in significant part a self-inflicted wound because of income tax cuts.

It was not, purely and simply, a case of "out-of-control spending," a favored phrase of Bobby Jindal when he was campaigning for governor in 2007.

The Louisiana Budget Project released a new report on the repeal of the Stelly income tax reforms.

The full report is available online at http://www.labudget.org/lbp.

Named for then-Rep. Vic Stelly, R-Lake Charles, the 2002 reform plan — the most significant improvement in state finances for many years — was adopted by the Legislature and approved by a constitutional amendment by a majority of the state's voters.

The state eased the obligations of low- and middle-income households by reducing the sales tax and responsibly increasing the income tax on those best able to pay.

The plan was "revenue-neutral," meaning the decreases in sales tax revenue was offset by increases in the income tax in the early years.

The plan was never sold as being revenue-neutral forever.

Over time, the revamped tax structure would have grown with the economy.

That's what reasonable tax systems should do.

The Stelly Plan eliminated state sales tax on residential utilities, groceries and medicines, and it imposed limited increases in income taxes primarily affecting upper-income taxpayers.

"Everyone paid lower sales taxes as a result, but because low- and middle-income households have to devote a larger percentage of their income to necessities than do the wealthiest households, they got the most benefit," the LBP report noted.

To offset the loss of revenue from sales tax exemptions, Stelly made two changes to the state income tax: eliminating taxpayers' ability to subtract from their state taxable income federal itemized deductions exceeding the standard deduction; and altering the tax brackets so the top rate would take effect at $50,000 of income for joint filers instead of $100,000.

It was progressive reform in the finest sense of the word, and it had bipartisan support.

And it lasted only a couple of years, as bipartisan mistakes were made by lawmakers and Govs. Kathleen Blanco and Jindal.

In 2007, the excess itemized deduction benefit was reinstated on a phased-in basis by lawmakers and signed by Blanco. That change was the most egregious error of the two, as generally it was the highest-earning families who got the benefits; about a fifth of state taxpayers itemize on their federal returns. Then, in 2008, Jindal signed a repeal of the changes in income tax brackets.

If one had wanted to cut income taxes, this was the stupidest way to do so, by simply reverting to the pre-Stelly levels. Reforming the income tax system, though, requires eliminating the big breaks for high-income earners, those who benefit from the itemized deductions provisions. The Legislature is nothing if not subservient to the upper-income people in our state.

But both repeal bills were doubly ignorant, as everyone with an ounce of sense saw that Louisiana's post-hurricane boom in state revenue, as well as a year of record oil prices, would not fuel state spending forever.

How bad an idea? The LBP report: "The state's April estimate of the revenue shortfall for Fiscal Year 2010 is $567 million. That is $82 million less than the projected cost of the Stelly rollbacks for the year. In other words, had the state not enacted the Stelly rollbacks, it would not have faced a Fiscal Year 2010 budget shortfall — and the shortfall for the next two fiscal years would be substantially less."

A self-inflicted wound that should have been avoided.