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Will Jindal go for more sin taxes?

By TOM ASWELL

During the 1988 presidential race, Vice President George H.W. Bush proclaimed, “Read my lips: no new taxes!”

That famous line helped him defeat Michael Dukakis but when he was forced to back-track on that promise, it was his eventual undoing. Bill Clinton’s own pithy campaign slogan “It’s the economy, stupid” swept the Arkansas governor into the White House in 1992.

Now, 19 years later, Louisiana’s governor seems determined not to repeat Bush’s mistake. Bobby Jindal doggedly clings to his stated refusal to consider new taxes n or even to reinstate repealed taxes n to help lift the state out of its current financial morass.

Ironically, his stubbornness to keep that promise could conceivably cause him problems in his own re-election bid if he and the Legislature cannot work together find some alternate means of achieving financial solvency for the state.

The state will be facing a budgetary shortfall estimated at \$1.6 billion when legislators convene at noon on April 25. They will have less than two months to come up with a way to keep the state afloat.

The crux of the problem is lawmakers’ propensity to spend one-time revenue on recurring expenses with no long-term plan for addressing future needs. Jindal has tossed out a plan to sell off state assets, including state buildings and two state-run prisons, but that would be a temporary Band-Aid at best. Likewise, his tentative proposal to draw against future State Lottery revenues would seem to be a desperation ploy that would do nothing to address fiscal problems in ensuing years.

Jindal’s reluctance to use the line-item veto to kill more than \$500 million in spending on local

projects like golf courses, councils on aging, baseball parks, tennis courts, court houses, and community centers, has done little to assuage the situation.

So, just where does that leave the state?

In a word, broke.

So, what are the alternatives?

How about hefty increases in the state's tobacco tax?

How about comparable increases in alcohol taxes?

Together, they're commonly referred to as sin taxes.

Louisiana currently taxes cigarettes at a rate of 36 cents per pack, which ranks 48th among the 50 states and 51st overall, when Guam (\$3 per pack), District of Columbia (\$2.50 per pack), and Puerto Rico (\$2.23 per pack) are factored into the equation.

The national average is 99 cents per pack.

Only Virginia, a tobacco state, and Missouri tax cigarettes at a lower rate at 30 and 17 cents per pack, respectively. Even North Carolina, another tobacco producing state, taxes cigarettes at 45 cents per pack. South Carolina, likewise a big tobacco producer, held its cigarette tax down to a paltry 7 cents per pack until July 1, 2010, when it was raised to 57 cents.

New York, which until July 1, 2010, taxed cigarettes at \$2.75 per pack, now has the highest rate in the nation at \$4.35 per pack. But over-taxing any commodity can have adverse effects. Enterprising bootleggers need only go across the state line to Connecticut (\$3 per pack) New Jersey (\$2.70), New Hampshire (\$1.78), or Pennsylvania (\$1.60), return to New York, and sell them on the black market, thus depriving the state of untold millions of dollars.

Likewise, if Louisiana gets too greedy, a new, prohibitive tax of say, \$1.50 per pack, might well drive Louisianians into Mississippi where the current tax is 68 cents per pack. But a tax of that amount would put the state on virtual equal footing with Texas, which imposes a tax of \$1.41 per pack.

But just for the sake of argument, let's say the legislature does man-up in this, an election year, and increase the tobacco tax to \$1 per pack. What would that mean in terms of revenue, assuming the increase would not cause a corresponding decrease in the number of smokers and that citizens would not traverse the state line into Mississippi in search of cheaper smokes?

During the fiscal year 2008-2009, the last year for which figures are available, Louisiana collected almost \$147.2 million in tobacco taxes, the third straight year of increases. At \$1 per pack, the state would conceivably reap \$407.2 million, a 176.6 percent increase. A tax of \$1.50 per pack would kick that amount up to \$613.3 million, barring a reduction in sales.

The Institute on Taxation and Economic Policy calls tobacco taxes both “regressive” and “declining”—regressive in that low-income smokers are the most adversely impacted, and declining because, it says, cigarette taxes are among the slowest-growing revenue sources available.

In 2006, the institute said in its 2007 policy brief, the state’s poorest smokers spent .6 percent of their income on cigarette taxes, 10 times the .06 percent spent by the wealthiest Louisiana smokers. Moreover, low-income Louisianans are more likely to smoke than higher-income taxpayers, the report said.

The same report said the state’s 36-cent-per-pack tax income will be static because the tax is not based on the retail price of cigarettes where tax revenues increase with price increases. Oddly, all 50 states have flat-rate cigarette taxes as opposed to basing them on a percentage of retail prices.

Another factor in the declining tax theory is the decrease in sales when cigarette taxes are increased. In fact, cigarette consumption by Louisianans has declined steadily over the past quarter-century, the report shows.

From a high of more than 600 million packs sold (about 132 packs per person) in 1982, sales plummeted to 410 million packs (91 packs per person) by 2005.

An increase in tobacco taxes, then, could serve as a double-edged sword: on the one hand, it might not produce a significant increase in revenue, but if it resulted in fewer people lighting up, the health benefits derived from the tax increase could be immeasurable with a lessening of the financial strain on the state’s charity hospital system.

Alcohol could be quite another story. Of the 50 states, Guam, Puerto Rico, and Washington D.C. only 12 have higher taxes on beer than Louisiana. On the other hand, only five of the 53 have lower taxes on liquor. Like tobacco, however, alcohol is taxed on the amount sold as opposed to basing the tax on a percentage of the retail price.

The Louisiana Department of Revenue reports that for Fiscal Year 2008-09, the state collected nearly \$56.9 million in alcohol tax. The breakdown was \$37.3 million on low-alcohol content (beer) and almost \$19.6 million on high-alcohol (liquor) sales. Should the legislature decide to raise Louisiana’s liquor tax to the national average of \$6.25 per gallon, it could mean an income of \$49 million n more than double the present amount.

The solution, then, insofar as the state’s sin taxes are concerned, could be found not so much in an increase (though a modest increase in both tobacco and liquor taxes might well be in order) as a change to a rate based on a percentage of the retail cost.