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Louisiana deficit demands new look at taxes: A guest column by Edward Ashworth

By Contributing Op-Ed columnist

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Over the next two years Louisiana likely will fall almost \$2 billion short of what it will take to meet people's growing needs in a tough national recession. That's serious money -- more than you'll find by tinkering at the margins. Lawmakers will be forced to make difficult decisions.

Legislative leaders and the governor say everything is on the table, but really it's not, because no one will look at the revenue side, where the state gets its money, and how to get more. Think of a family around the kitchen table figuring how to make ends meet in tough times. Sure, they will look for easy ways to spend less. But they'll also look for more income.

When Louisiana's leaders rule out revenue, we all lose because a cuts-only approach risks failing to meet the growing needs of struggling families and also damaging the state's economy for when prosperity returns.

We need a balanced approach that includes revenue, recognizing there's no single answer to a problem this big. If the money it would produce isn't enough to change the governor's and Legislature's minds about considering revenue, another good reason is Louisiana's tax system badly needs repair.

For one thing, it's one of the nation's most unbalanced. Low- and middle-income Louisianans pay a far higher share of their income in state and local taxes than do the state's richest families. That was the grim conclusion of a recent nationwide study by the Washington DC-based Institute on Taxation & Economic Policy. The breakdown: Families making under \$15,000 a year pay 10.4 percent of their income in state and local taxes; those making between \$29,000 and \$46,000 pay 9.9 percent; and the richest 1 percent of households -- with average incomes just over \$1 million -- pay 5.7 percent of their income.

A primary reason for this is Louisiana's heavy reliance on sales and excise taxes and its more limited use of income tax. Low- and moderate-income families must spend most of their income, unlike wealthier families who can save and invest. So taxes on purchases fall heaviest the lower you are on the income ladder.

The state income tax, with graduated rates, works the other way; higher income households pay a greater share of what they make in a year. It's the only tax based on ability to pay, but Louisiana doesn't use it enough to undo the impact of other taxes on low- and middle-income households.

Louisiana's reliance on sales and excise taxes is 65 percent above the national average, according to ITEP. Its reliance on income taxes is 14 percent below. A straightforward strategy to get money to meet public needs and address its woeful tax fairness record would be for Louisiana to rely more on income taxes and less on sales and excise taxes. Instead, we're moving the other way. In 2007 and 2008, income taxes were reduced, giving the biggest break to the wealthiest.

Another problem is Louisiana's array of tax exemptions, projected in this year's budget to cost the state \$6.5 billion in lost revenue. Some serve good purposes, like having no sales tax on necessities like groceries and medicine.

But others are questionable, like a two-year exemption from severance taxes for wells drilled in north Louisiana's Haynesville Shale. Experts estimate this geological formation might contain the largest accumulation of natural gas ever discovered, with companies competing fiercely for leases to drill. The tax break, created in 1994 to encourage drilling during a bust, today is an unjustified windfall.

It's a cliché that problems are opportunities, but Louisiana's financial situation presents a historic chance to realign



Ellis Lucia / The Times-Picayune

Gov. Bobby Jindal addresses the opening of the 2008 regular session of the Louisiana Legislature in Baton Rouge March 31, 2008

the state's revenue-raising system so everyone -- individuals and corporations alike -- pays their fair share and the state has the money it needs.

Governor Jindal told the opening session of the state Streamlining Commission, "It's time to make the hard choices...The time for real reform is now."

Fixing Louisiana's unfair, unbalanced taxing system would be a good start.

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