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Two Decades of State Tax Instability

Louisiana's state tax structure has been unstable over the two decades since 1972. Through five Legislatures and three governors, the state has ridden a fiscal roller coaster driven largely by fluctuating oil prices. The effects of national recessions, declining mineral production, demands for new and improved government services, and tax exemptions and credits for various types of taxpayer have placed additional stress on the state's fiscal structure.

Significant tax changes have been enacted almost every year. Table 1 lists each tax change of $1 million or more, along with its estimated initial impact. If a tax change was phased in, the initial impact is split among the relevant years. For some changes, initial impacts are not known or can be roughly estimated only. Some changes with little or no initial impact grew in importance while the initial impact of others faded.

The 70 tax changes listed in Table 1 represent $2.1 billion in tax increases and $0.7 billion in decreases, for a net increase of $1.4 billion in initial impacts. Some tax changes were paired with offsetting changes, such as the recent gasoline tax increase and repeal of the sales tax on gasoline. However, much of the interplay between increases and decreases was to shift tax burdens among taxpayers.

Tax Changes, By Administration

Each administration reflects distinctly different approaches to tax changes.

About This Report . . .

This is the first in a series of PAR reports on Louisiana taxes and expenditures. Future issues will examine the state's tax structure, program spending levels, and individual and business tax burdens in comparison with those of other southern states and the nation. The objective of this series is to determine the changes needed to provide stable and equitable funding for an adequate level of state services while fostering a climate favorable to economic growth.

Edwards First Term
(FY 1972-73 to FY 1975-76)

Major increases in oil and gas severance taxes during the first three years of this term were accompanied by significant decreases in personal income and sales taxes. Business also benefited from an income tax decrease and repeal of the power use, electric generation, lube oil and state property taxes. The severance tax increases were an effort to counteract declining taxable oil and gas production. The net effect was a major shift from taxes on individuals to taxes on the oil and gas industry.

Edwards Second Term
(FY 1976-77 to FY 1979-80)

During this term, one major and two smaller increases in the corporate income tax were the only significant continuing tax changes. A personal income tax increase was offset largely by a tax decrease in the fourth year. The governor backed a "first use tax" on gas produced offshore which was touted as a "painless paradise tax." The tax was to go into effect in 1979 and raise $170 million a year dedicated to debt service and coastline

TABLE 1
Significant State Tax Changes Over Two Decades
(In Millions)

Edwards: First Term	1972-73	1973-74	1974-75	1975-76
1972 Regular				
(1) Repeal gas tax credits to manufacturers (1 cent/ MCF)	$ 3	$ 10	$ 0	$ 0
(2) Change gas severance tax to value basis (one month only)	1	0	0	0
(3) Reduce dealer discounts on income, tobacco, sales, gasoline and liquor taxes	6	0	0	0
1972 Special				
(1) Increase gas severance tax from 2.3 cents to 3.3 cents/MCF	35	0	0	0
(2) Repeal state property tax	(7)	(25)	0	0
1973 Special				
(1) Increase gas severance tax from 3.3 cents to 7 cents/MCF	0	57	75	0
(2) Increase oil severance tax from 23 cents/barrel to 12.5% of value	0	70	129	0
(3) Make federal income tax deductible from personal income tax	0	(54)	0	0
(4) Repeal electric generation tax	0	(1)	(8)	0
(5) Repeal power use tax	0	0	(3)	0
(6) Repeal lubricating oil tax	0	(1)	(2)	0
(7) Increase sales tax exemption for food and drugs from 1 cent to 2 cents	0	0	(17)	(28)
(8) Reinstate gas tax credits for manufacturers at 2 cents/MCF	0	0	(9)	(2)
1974 Regular				
(1) Increase oil and gas depletion allowance from 27.5% to 38% for income tax	0	0	(11)	0
(2) Piggyback personal income tax on federal tax	0	0	0	(12)
ANNUAL TOTAL	38	56	154	(42)
NET: 4 YEARS	38	94	248	206

Edwards: Second Term	1976-77	1977-78	1978-79	1979-80
1976 Regular				
(1) Expand sales tax exemption for ships built in Louisiana from 2 cents to 3 cents	0	(2)	(3)	0
1977 Regular				
(1) Repeal gas tax credits for manufacturers	0	0	5	10
(2) Repeal severance tax exemption for natural gas used as fuel	0	6	0	0
1977 Special				
(1) Adjust personal income tax to federal tax changes	0	23	0	0
(2) Increase corporate income tax	0	80	0	0
(3) Exempt out-of-state equipment repairs from sales tax	0	0	(1)	0
1978 Regular				
(1) Exempt vending machine sales from sales tax	0	0	(3)	0
1979 Regular				
(1) Enact $25 per child education credit on personal income tax	0	0	0	(16)
(2) Exempt $50,000 of farm equipment from sales tax	0	0	0	(5)
(3) Enact net operating loss deduction for corporate income tax	0	0	a	0
(4) Exempt gasohol from sales tax (no effect until 1984-85)	0	0	0	0
ANNUAL TOTAL	0	107	(2)	(11)
NET: 4 YEARS	0	107	105	94

Treen	1980-81	1981-82	1982-83	1983-84
1980 Regular				
(1) Increase personal exemption from $2,500/$5,000 to $6000/$12,000 and adjust to federal changes in personal income tax	(90)	0	0	0
(2) Increase personal income tax deduction from $400 to $1,000 for each dependent	(19)	0	0	0
(3) Limit personal income tax	(24)	0	0	0
1981 Regular				
(1) Repeal occupational license tax	0	(26)	(3)	0
(2) Exempt sales tax for materials used for construction for energy conservation	0	0	(4)	0

		1980-81	1981-82	1982-83	1983-84
(3)	Exclude $6,000 of retirement income from personal income tax	0	(1)	0	0
(4)	Exempt purchases by hospital service districts from sales tax	0	(2)	0	0
(5)	Exempt purchases by sheriffs from sales tax	0	(2)	0	0
1982 Regular					
(1)	Exempt drilling ships and barges from sales tax	0	0	(7)	0
(2)	Exempt purchase of vehicles to be leased from sales tax	0	0	(1)	0
(3)	Exempt diesel fuel and butane for farm use from sales tax	0	0	(3)	0
1983 Special					
(1)	Reduce personal exemption from $6,000/$12,000 to $4,500/$9,000 on personal income tax	0	0	0	146
1983 Regular					
(1)	Exempt home use butane and propane from sales tax	0	0	0	0
	ANNUAL TOTAL	(133)	(31)	(18)	146
	NET: 4 YEARS	(133)	(164)	(182)	(36)

Edwards: Third Term		1984-85	1985-86	1986-87	1987-88
1979 Regular					
(1)	Exempt gasohol from sales tax	(16)	(16)	0	0
1983 Regular					
(1)	Exempt home use butane and propane from sales tax[b]	(16)	0	0	0
1984 Special					
(1)	Increase sales tax from 3 cents to 4 cents	301	0	0	0
(2)	Increase insurance license tax	44	0	0	0
(3)	Reduce mineral depletion allowance from 38% to 22% for corporate income tax	27	0	0	0
(4)	Levy retail alcohol/drink tax	20	0	0	0
(5)	Levy hazardous waste tax	4	0	0	0
(6)	Increase sand and gravel severance tax	1	0	0	0
(7)	Increase cigarette tax from 11 cents to 16 cents/pack	28	0	0	0
(8)	Increase gasoline and special fuels tax from 8 cents to 16 cents/gallon	183	0	0	0
(9)	Remove income tax limit	20	0	0	0
(10)	Double corporate franchise tax	80	42	0	0
(11)	Exempt helicopters from sales tax	(1)	0	0	0
1985 Regular					
(1)	Repeal alcohol/drink tax	0	(10)	(10)	0
1986 Regular					
(1)	Reduce vendors' compensation from 1.5% to 1.1% of sales tax	0	0	5	0
1986 Special					
(1)	Suspend education personal income tax credit	0	0	15	0
(2)	Suspend sales tax on exemption on 1% for:				
	Food	0	0	51	0
	Water	0	0	2	0
	Natural gas	0	0	18	0
	Electric power	0	0	33	0
	Gasolines	0	0	31	0
	Trade-ins	0	0	7	0
	Prescription drugs	0	0	8	0
	Insulin	0	0	1	0
	Farm equipment	0	0	3	0
	Pesticides	0	0	1	0
	Diesel	0	0	1	0
	Offshore property	0	0	3	0
	50-ton vessels	0	0	7	0
	Commercial fishermen	0	0	1	0
1987 Regular					
(1)	Exempt crawfish harvesting materials from sales tax	0	0	0	(2)
(2)	Exclude electricity for chlor-alkali process from sales tax	0	0	0	(6)
	ANNUAL TOTAL	675	16	177	(8)
	NET: 4 YEARS	675	691	868	860

Roemer	1988-89	1989-90	1990-91
1988 Regular; 1989 Regular			
(1) Suspend/restore sales tax exemption for:			
Food	94	(24)	25
Water	4	(1)	1
Natural gas	36	(9)	9
Electric power	61	(16)	16
Gasoline	75	(57)	(59)
Trade-ins	18	(27)	0
Prescription drugs	0	(4)	(5)
Insulin	0	(1)	0
Farm equipment	5	(1)	1
Diesel	0	(1)	(1)
Offshore property	6	(9)	0
50-ton vessels	0	(4)	(4)
(2) Double hazardous waste tax	5	0	0
1989 Special			
(1) Increase gasoline and special fuels tax from 16 cents to 20 cents on January 1, 1990	0	38	39
(2) Increase auto license from \$3 to \$10 minimum	0	7	7
(3) Exclude Subchapter S corporations from corporate income tax	0	0	(7)
1990 Regular			
(1) Increase cigarette tax from 16 cents to 20 cents/pack	0	0	14
(2) Increase from 7 cents to 10 cents/MCF and index natural gas severance tax to value	0	0	39
(3) Increase hazardous waste tax	0	0	0[c]
(4) Levy 3% sales tax on telecommunications	0	0	31
(5) Suspend sales tax exemption for lease/rental vehicle purchases	0	0	8
(6) Exempt autos purchased for lease from sales tax	0	0	(2)
(7) Repeal communication excise tax	0	0	(20)
(8) Levy auto excise tax on rentals	0	0	2
(9) Exempt commuter airline purchases from sales tax	0	0	(2)
ANNUAL TOTAL	304	(109)	92
NET: 3 YEARS	304	195	287

a Data is unavailable. Initial-year impact was relatively small but grew to an estimated \$115 million in the late 1980s.
b Effective for 1984-85.
c Initial estimate of \$41 million. Court challenge, escrowed payments and administration problems actually lowered revenues.

yes

lower? slow up

preservation, but was ruled unconstitutional by the U.S. Supreme Court.

Treen Term
(FY 1980-81 to FY 1983-84)

Oil prices jumped to \$35 a barrel in 1981 due to federal price deregulation. The huge revenue windfall was used to cut personal income taxes by half and continue the growth in spending. The state's occupational license tax was repealed. Oil prices dipped after 1981 and by the end of the term, the personal income tax was increased, thus offsetting the earlier cut.

Treen unsuccessfully proposed a Coastal Wetlands Environmental Levy (CWEL) on the transportation of offshore oil and gas. Projected revenues of \$450 million were to be used for capital outlay. The governor also unsuccessfully recommended authorizing property taxes on oil and gas in the ground as a prelude to levying a tax.

Edwards Third Term
(FY 1984-85 to FY 1987-88)

This term began in the third year of declining oil prices and mineral revenues. A \$707 million tax package enacted for fiscal 1984-85 increased general and selective sales taxes, corporate franchise, corporate income and personal income taxes. The governor had recommended a \$1 billion dollar tax package but failed to get approval for a property transfer tax, a soft drink tax increase and reimposition of the occupational license tax. In addition, a proposed constitutional amendment to permit an increase in corporate income taxes (by limiting the deduction for federal taxes) failed to get voter approval.

Oil prices dropped by half in 1986 and the state's recession worsened. In 1986 the governor proposed a 20-mill state property tax (\$209 million) and a state lottery and casino gambling (estimated by the governor to raise \$112 million and \$125 million, respectively) to shore up state revenues--all were defeated. Instead, "temporary" sales taxes were levied on traditionally exempt items for one year (\$172 million) and personal income taxes were raised (\$15 million) for fiscal 1986-87.

There were "no new taxes" in the 1987 election year although the temporary sales tax increases were continued. Fiscal 1987-88 was the third year in a row the state ran a deficit, leaving the next administration to cope with a massive accumulated operating deficit.

Roemer Term
(FY 1988-89 to FY 1991-92)

The state economy began a slow recovery in 1988 although oil prices were still down. Temporary sales taxes were increased by $299 million for fiscal 1988-89 and then cut back by $154 million for fiscal 1989-90 as other revenue resources rebounded. A gasoline tax increase offset most of the reduction in temporary sales taxes on gasoline. For fiscal 1990-91, temporary sales taxes were continued and increased as were the gas severance tax, various special excise or sales taxes, the automobile license and hazardous waste taxes, for a net increase of $133 million. This included a $41 million estimate for hazardous waste taxes which failed to materialize.

In 1988 and 1989 the Governor backed attempts to overhaul the state's tax structure. In April 1989, the voters rejected a single constitutional amendment proposing a comprehensive rewriting of the tax laws.

Business and Individual Tax Impacts

The initial incidence of a tax change (who first pays the tax) is obvious in the case of some taxes. For others, such as the general sales tax, data is not readily available to determine the burdens borne by business as opposed to individuals. The estimates of initial tax change impacts on business and individuals, shown in Table 2, assume that general sales taxes are paid in a 70/30 ratio of in-

TABLE 2
Initial Impact of Significant Tax Changes Since 1972
(In Millions)

	Sales Tax				Corporate		Net Change		
Fiscal Year	General	Selective*	Severance	Personal Income	Income and Franchise	Other	Total	Business	Individual
Edwards									
1972-73	$ 6	$ 0	$ 36	$ 0	$ 3	$ (7)	$ 38	$ 38	$ 0
1973-74	0	(1)	127	(54)	10	(26)	56	110	(54)
1974-75	(17)	(2)	204	0	(20)	(11)	154	171	(17)
1975-76	(28)	0	0	(12)	(2)	0	(42)	(2)	(40)
Four Years	(39)	(3)	367	(66)	(9)	(44)	206	317	(111)
Edwards									
1976-77	0	0	0	0	0	0	0	0	0
1977-78	(2)	0	6	23	80	0	107	84	23
1978-79	(7)	0	0	0	5	0	(2)	(2)	0
1979-80	(5)	0	0	(16)	10	0	(11)	5	(16)
Four Years	(14)	0	6	7	95	0	94	87	7
Treen									
1980-81	0	0	0	(133)	0	0	(133)	0	(133)
1981-82	(4)	0	0	(1)	0	(26)	(31)	(26)	(5)
1982-83	(15)	0	0	0	0	(3)	(18)	(18)	0
1983-84	0	0	0	146	0	0	146	0	146
Four Years	(19)	0	0	12	0	(29)	(36)	(44)	8
Edwards									
1984-85	284	215	1	20	107	48	675	286	389
1985-86	0	(26)	0	0	42	0	16	26	(10)
1986-87	172	(10)	0	15	0	0	177	51	126
1987-88	(8)	0	0	0	0	0	(8)	(8)	0
Four Years	448	179	1	35	149	48	860	355	505
Roemer									
1988-89	299	0	0	0	0	5	304	82	222
1989-90	(154)	38	0	0	0	7	(109)	(39)	(70)
1990-91	18	35	39	0	(7)	7	92	32	60
Three Years	163	73	39	0	(7)	19	287	75	212
Grand Total	539	249	413	(12)	228	(6)	1,411	790	621

* This includes excise taxes on gasoline, cigarettes, alcoholic beverages and other items.

dividuals to business. The assumed ratio for gasoline and motor vehicle sales taxes is 60/40--individuals to business.

Through the 1970s, the business sector bore nearly all of the tax increases while other changes generally favored individual taxpayers. Beginning in the mid-1980s, tax increases fell on both sectors, with individuals bearing the largest share. Of the total net tax increases since 1972, business bore about 57% and individuals 43% of the impact.

Changing Tax Structure

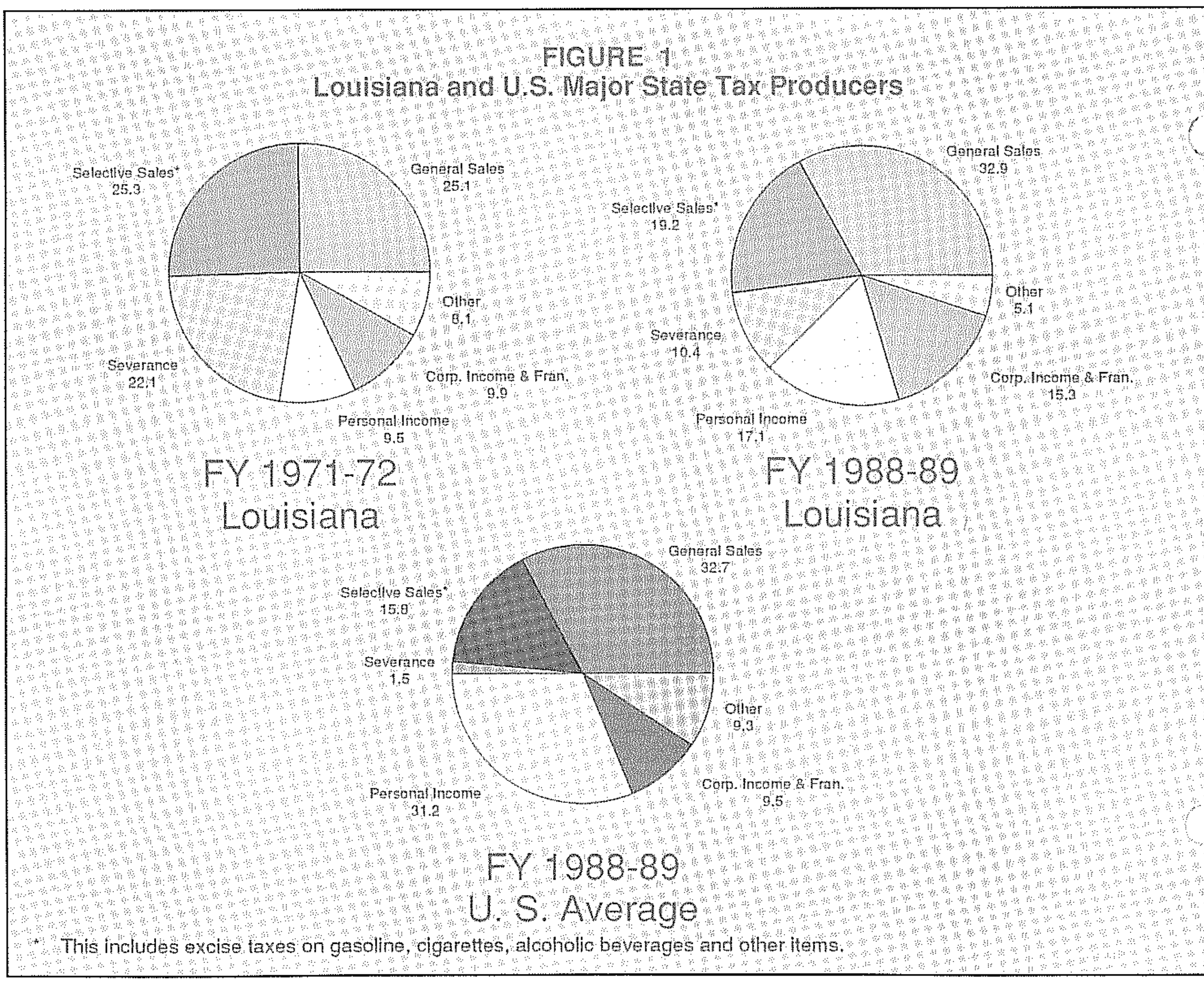
As shown in Figure 1, the makeup of the total tax package has shifted substantially since fiscal 1971-72. General sales taxes rose from 25.1% of the total to 32.9% in fiscal 1988-89, matching the average ratio of all states (1988-89 is the latest year for which comparative national data is available). Selective sales taxes slid sharply from 25.4% to 16.7% in 1983-84, but recent increases have brought this source up once more.

The most dramatic changes have occurred in severance taxes, which were 22.1% of the total in 1971-72 and after several major fluctuations finally settled near 10% in 1988-89. Personal income and corporate taxes combined rose from less than one fifth to nearly one third of the total. Louisiana's personal income tax share at 17.1% ranks low compared to the 31.2% national average. The state's corporate income and franchise taxes at 15.3% make up a larger share of the total than the national average of 9.5%.

Clearly, the severance tax has allowed Louisiana to draw less heavily upon the personal income tax than the average state.

A Disturbing Trend

The inherent instability of the state's tax structure has been compounded by the cyclical impact of election-year tax policies. In each of the last three terms, nonrecurring sources were used to prop up spending for the last year of an administration. The incoming Legislature and administration then are left with the dual problem of replacing the nonrecurring funding sources and finding added revenue to continue the existing spending levels.



As shown in Table 3, budgets enacted or proposed in the election ..rs of 1983, 1987 and 1991 each ..ve negative annual results.

Election Year 1983

A series of actions raised $410 million in nonrecurring funds to balance the budget. These included changes in tax due dates ($60 million), use of tideland settlement funds ($26 million), use of surplus ($181 million), accounting changes ($136 million) and other miscellaneous actions ($8 million).

As a result, special sessions were held in December 1983 and March 1984 to raise over $850 million in taxes to prevent massive spending cuts.

Election Year 1987

The enacted budget was balanced on paper by using unrealistically high revenue projections. In April 1987, the administration's budget used revenue estimates $242 million higher than those of the Legislative Fiscal Office. In May, the House raised the oil price estimate to yield $24 million. In June, the Senate raised oil price estimates for another $16 million. In July, the governor upped the price estimate for yet another $35 million. Oil prices did not reach the "guesstimates."

As a result, the accumulated deficit reached $512 million by the end of fiscal 1987-88, even after a variety of steps taken by the incoming governor. Ultimately, in 1988, the Louisiana Recovery District (LRD) was created which issued $979 million in bonds to pay off the deficit and provide a cash cushion for fiscal 1988-89.

TABLE 3
20-Year Trend in State General Fund Surplus or Deficit (In Millions)

End of Fiscal Year	Annual Result[a]	Cumulative Balance[b]
Edwards		
1972-73	$ 23	$ 32
1973-74	114	146
1974-75	6	152
1975-76	(68)	84
Edwards		
1976-77	37	121
1977-78	84	205
1978-79	178	383
1979-80	166	549
Treen		
1980-81	7	556
1981-82	(12)	544
1982-83	(363)	181
1983-84	(146)	35
Edwards		
1984-85	65	100
1985-86	(344)	(244)
1986-87	(202)	(446)
1987-88	(66)	(512)
Roemer		
1988-89	1,167[c]	655[d]
1989-90	47	702
1990-91 (estimate)	(264)[e]	438[e]
1991-92 (estimate)	(386)[f]	52[f]

a Represents difference between state revenue (including available surplus at beginning of year) and expenditures for each 12-month period, i. e., the annual net change in the unreserved, undesignated fund balances.

b As shown in Louisiana Annual Financial Report as the unreserved, undesignated year-end balance in the state general fund through FY 1989-90.

Includes $783.2 million in revenue from bond proceeds of the Louisiana Recovery District (LRD).

d Includes approximately $271 million of $783.2 million LRD bond proceeds.

e Based on Office of Planning and Budget forecasts.

f Governor's recommended 1991-92 budget (assumes continued suspension of $310 million in tax exemptions).

Election Year 1991

A projected budget gap of over $900 million was announced for fiscal 1991-92. The Governor's proposed budget would address $310 million of the difference by continuing temporary sales taxes. In addition, the budget would use $386 million in surplus. This would nearly deplete the surplus which stood at $702 million at the end of fiscal 1989-90 and included about $270 million in excess bond proceeds from the LRD. The budget for the current fiscal year already had used $264 million of the surplus.

As a result, whoever is elected governor and the next Legislature likely will be looking at new taxes in 1992.

The Problem of Tax Instability

No state tax structure can be insulated from economic shocks, but the selection of taxes can promote revenue growth which keeps pace with the economy without perennial tax changes. It also can avoid disastrous revenue losses in economic downturns.

The instability in Louisiana's tax structure is attributable to a number of factors. Dependence on highly erratic mineral revenues has been the major culprit. Even windfalls have created problems by encouraging untenable spending levels.

The bias against personal income taxation has contributed to instability as has the relatively high dependence on the volatile corporate income tax. The cyclical problems created by election-year "quick fix" strategies have been another factor. The recent dependence on annually renewable "temporary" taxes has added budgetary uncertainty.

A stable tax structure is essential to provide continuity in state services and encourage economic development. Tax certainty is almost as important as tax burden for many businesses.

Recent reforms to improve tax stability include the creation of a mineral revenue stabilization fund "rainy day fund," balanced budget requirements, and consensus revenue forecasting as well as the initiation of long-range budget planning.

However, a stable and equitable state tax structure remains to be achieved.

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