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Stelly Plan change deferred by panel Bill to restore tax break might not re-emerge

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BATON ROUGE -- A bill to restore a state tax break to many Louisiana residents by changing part of the Stelly Plan was shot down in its first committee hearing Monday.

The committee's action was a victory for Gov. Kathleen Blanco, who personally testified against the measure. It sent a strong signal that the backlash against the Stelly Plan, a tax overhaul approved by a slight majority of voters statewide in 2002, probably won't produce any significant repeals of the plan's provisions during the current session.

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"I know it just takes courage to stay on course with tax reform," Blanco told the Senate Revenue and Fiscal Affairs Committee before the vote. "I'm asking you not to make our situation worse by undoing tax reform."

The panel voted 6-4 to defer Senate Bill 1 by Sen. James David Cain, R-Dry Creek, until later in the session when lawmakers have had a chance to hear from Louisiana's team of state revenue forecasters. The bill might not re-emerge this session.

Cain's legislation was considered a keystone for opponents of the Stelly Plan. Named after its legislative sponsor, former Rep. Vic Stelly, I-Lake Charles, the plan eliminated the state sales tax on household food and residential utilities while changing income tax brackets to benefit lower-income residents and to raise taxes on some middle-income families.

Cutting into revenue

The plan also eliminated a significant deduction. Previously, state income tax filers who itemized deductions on their federal forms could take a portion of the amount that exceeded the standard deduction and write that off on their state income tax form. The Stelly Plan got rid of the write-off, a provision that mainly affected people with large deductible items such as home mortgage interest, medical bills and charitable donations.

Cain wanted to restore this so-called excess itemized deduction, but Blanco opposed the idea in part because it would have reduced state tax revenue at a time when she is trying to find enough money to pay for a shortfall in health-care financing and to pursue her agenda in education and other areas.

The senator's bill would have reduced taxes for about one of every four taxpayers living in Louisiana. Based on the 2003 tax year, about 516,000 taxpayers in Louisiana took the excess-itemized deduction, counting both taxpayers filing a joint return, according to the Legislative Fiscal Office. About 1.73 million taxpayers did not take the deduction.

Cain tried to sweeten his bill with an amendment to phase it in over a 10-year period, reducing its fiscal impact. Cain's amendment also would have put an income cap on taxpayers who would be eligible to take the deduction. Only taxpayers with \$75,000 or less of federal adjusted gross income, or \$150,000 if filing a joint return, would have been able to take the deduction.

A big budget bite

The Legislative Fiscal Office estimated that Cain's bill with the amendment would have reduced state income tax revenue by \$15 million in fiscal 2007 and by increasing amounts each year, for a total five-year impact by 2010 of \$160 million.

Blanco was joined by a formidable list of witnesses testifying against Cain's bill, including leading figures in her administration, state Senate President Donald Hines, D-Bunkie, the nonpartisan groups Public Affairs Research Council and Council for a Better Louisiana, and Stelly himself.

Two pastors affiliated with the Family Forum, a socially conservative religious issues group in Louisiana, spoke in favor of Cain's bill and said the current tax plan could dissuade church members from donating. Several people representing the Jewish, Catholic and Methodist faiths, among others, spoke against the bill and praised the Stelly Plan's impact on the poor.

With or without Cain's proposed change, the Stelly Plan is scheduled to net hundreds of millions of dollars in additional state tax payments in the next few years.

Cain argued that the state ought to give some of that back, and that most voters were in favor of his proposal.

"How greedy do we want to be?" Cain said. "I know in my heart that people want this."

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