



No givesies backsies

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When Oregon took in \$1.1 billion more than expected last year, it returned the extra money to taxpayers in the form of rebates.

Since 1982, Alaska—flush with cash from oil and gas revenues—has paid residents a yearly dividend, more than \$15 billion worth.

But when the Louisiana Legislature found itself with a \$1.1 billion windfall this year, it rather predictably spent the extra cash and quietly quashed measures in the Legislature that would have let voters decide whether they'd get their money back, too.

Another surplus of at least \$639 million is on the way—but don't count on spending your cut on a day's worth of gas for the Hummer this time around, either.

While rebates and dividends might prove popular with taxpayers struggling to make ends meet, politicians aren't exactly stampeding to take up this cause. Their argument: Louisiana needs the money way too badly to give it back.

Freshman Rep. Rick Nowlin, a Natchitoches Republican, has a simple philosophy: Tax rates are intended to collect sufficient revenue to pay for planned government expenditures. Therefore, any surplus means too many taxes have been collected.

The Louisiana Constitution, however, actually prohibits legislators from returning that money to taxpayers. Surpluses can only be spent on six items: retiring the state debt, paying off the state retirement systems' unfunded accrued liability, construction projects, contributions to the rainy day fund, wetlands conservation and restoration and new highway construction for which federal matching funds are available.

This session, Nowlin proposed asking voters to amend the constitution, giving legislators the additional option of issuing a tax rebate. "It's my opinion the state Legislature should have the right to return a portion of the over-collection of tax revenue to the people who paid the income tax," he says.

That notion immediately died in the House Appropriations Committee. Two other proposals in the Senate went nowhere fast as well. Ultimately, \$530 million of the surplus went to

transportation and infrastructure, \$300 million to hurricane protection and coastal restoration, \$75 million to deferred maintenance for higher education, \$60 million to an unfunded accrued liability and \$50 million to Pennington Biomedical Research Center.

The opposition went something like this:

“We have so many debts that need to be taken care of. We really need to concern ourselves with straightening out the ills of the past,” Rep. Joe Harrison, a Napoleonville Republican, told the panel. “I don’t think the timing is right at this point.”

Rep. Page Cortez, a Lafayette Republican, insisted that people don’t mind paying taxes if they believe the money is being spent correctly.

And Rep. Eddie Lambert, a Prairieville Republican, wondered how much money it would cost to return the money to taxpayers, adding, “We have a lot of needs.”

Public Affairs Research Council of Louisiana President Jim Brandt didn’t predict that kind of reaction. “I’m surprised these bills didn’t get more traction,” he says. “Going in, I would have predicted this would be marquee legislation. With the eye-popping surplus, I would have thought this would have been a very popular measure to at least give legislators the option and put that on the table.”

Oregon, Alaska doing it

Returning money to the taxpayers is rare, but not unheard of—even before the federal government gave out its stimulus rebate this spring. Six states have revenue limits, which require a mechanism to return to taxpayers, in some form, any revenue above a designated target.

Around Christmas time, Oregon doled out \$1.1 billion in rebates known as “kickers,” thanks to a law that requires it when tax collections top projections by more than 2%. A revenue boom fueled by real estate and the technology sector pushed income tax collections up 20%. Most taxpayers got about \$600, but checks sent to the wealthiest residents—like Nike co-founder Phil Knight—ran about \$800,000.

In Colorado, a constitutional amendment known as the Taxpayer’s Bill of Rights caps state spending and provides that excess revenue be returned to taxpayers. However, voters there suspended the rebate for five years beginning in 2005.

And since 1982, Alaska has distributed annual dividends from oil and gas revenues to its residents. In 2007, that amounted to \$1,654 per person.

Nowlin thinks a similar refund in Louisiana might boost local and state economies, but more importantly foster confidence in state government by acknowledging the over-collection of taxes and returning a portion not required for essential services.

“I do not think a tax rebate in Louisiana would be politically unpopular with the taxpayers,” he says. “It is, however, a difficult thing to accomplish in the government.”

He plans to file another bill in 2009, although this one will limit the amount of any refund or rebate in hopes of attracting broader support in the Legislature. His new legislation likely will include some economic trigger, such as a minimum amount of surplus funds to be generated before a refund or rebate becomes an option.

Nowlin notes that such a constitutional amendment doesn't mandate a rebate in surplus times; it merely gives legislators the option of considering one. Ultimately, he says, it will be up to the governor and the Legislature “to decide whether the state's need for the funds would outweigh the right and expectation of the taxpayers to receive some tax relief in view of the overcollection of taxes.”

“Some will honestly think that now is not the time to consider such a bill,” he admits. “But it would simply set up the legal framework for it to happen in the future. It would simply add a tax refund or rebate to the list of legal dispersals of surplus funds.”

Commissioner of Administration Angele Davis says the rebate proposals were shelved when legislators opted instead to give taxpayers a more permanent relief by eliminating the Stelly Tax, which she says will save them \$1 billion over the next five years.

She says the decision—combined with the elimination of 984 state government jobs—resulted in a sustainable tax cut that allowed the state to maintain full funding for education and invest in economic and workforce development initiatives.

“The consensus grew for a permanent reduction versus a one-time rebate,” Davis says. “I think that's smart. As a taxpayer, do you want a one-time rebate, or do you want a permanent tax cut?”

A matter of choice

LSU economics professor James Richardson, however, says the Stelly repeal works only so long as oil prices remain high. Should they suddenly drop, “Louisiana may find itself with a tax cut we cannot afford, and we have to make a decision at that point about what programs we might have to cut. We have to remember that oil prices are not permanently high. There will come a time when they will come down, and no one knows when that will be.”

Comparatively, a tax dividend might not be preferable now, when infrastructure, coastal restoration and retirement-fund shortfalls demand attention, Richardson acknowledges, “but maybe in a year or two, if we still have large surpluses, it may make more sense.”

“It's a matter of choice as to what's important right now,” he says. “Each governor and Legislature would have to decide whether to fix the roads or give the money back to the citizens. It's not something we could do every year.”

As far as Louisiana demographer and political analyst Elliott Stonecipher is concerned, a tax rebate would have been preferable to the “smoke and mirrors” involved in the Stelly Tax reversal, which is why he’s convinced it will never be a popular option among politicians.

“Legislators don’t like it,” he says. “That’s why people like me love it. Rebates remove all the trickery. If you want to give taxpayers a break, the way to do it without any flimflammy is rebates. You simply say, ‘We’re going to give back X amount of money to Y people.’ There’s no manipulation of the tax brackets; no ability to just give an answer so technical nobody can understand what you did.”

But Stonecipher says it will even be difficult for rebate advocates to convince reformers to give money back to the people because they are convinced it takes money to solve Louisiana’s woes. He insists that view will only drive more people away from the state.

“People initially like it here because they’re paying less net taxes,” he says. “But when they find out what they get for their taxes, that’s where we run into trouble. We have lots and lots of state employees, but we can’t get our trash picked up and the roads are lousy. It’s a simple thought process: What am I paying, and what do I get for it? You cannot expect outsiders who have no emotional attachment to the state to stand for that.”

Brandt predicts any future surpluses may go to pay all or part of Louisiana’s \$1.8 billion share of the \$14.8 billion in federal levee construction over the next three years, further hampering any efforts to get a tax rebate or dividend past the Legislature.

But Nowlin remains convinced it should be an option. To those who would rather spend the money on debts, he points out that the state is following a program of debt retirement that will reduce its debt progressively over the next two decades.

“Let us not forget that the surplus funds are over and above those sought from the taxpayers to fund state government,” Nowlin says. “The generation of surplus funds is not a regular part of the financial planning of the state.”