



## Tax Fairness One Pager #1: “The Stelly Plan”

The Stelly Plan, named for Lake Charles State Representative Vic Stelly, was originally approved by the Louisiana legislature and by voters in 2002.

It called for a restructuring of Louisiana’s taxes by shifting a portion from sales taxes to income taxes. This progressive tax swap had three parts:

Part I: Exempting food for home consumption, prescription drugs and utilities from state sales taxes. (This part was approved by voters as a constitutional amendment in 2002. This did not affect local taxes on these items)

Part II: Shifting income tax brackets to capture more higher-income earners, affecting individuals making over \$80,000 a year. (This part was approved by the Legislature.)

Part III: Providing that people who itemize deductions could no longer subtract their “federal excess itemized deductions” – that is, deductions over and above their standard deductions — from their Louisiana income tax liability. (Louisiana was one of only a few state’s to have that deduction.)

Parts II and III of the Stelly Plan – the parts that increase state revenue – have been dismantled.

**In 2008, the legislature voted to repeal “part II,” the income tax provisions of the Stelly plan, returning the rates to pre-2003 levels. This cost the state between \$350 million and \$1 billion in revenue every year since the repeal.**

The *Advocate* and the *Lafayette Daily Advertiser* both opposed the repeal.

At the time Louisiana was experiencing a budget surplus. The Public Affairs Research Council made the following observation, however, *“The proposed return to pre-Stelly income tax rates and the state’s growing reliance on oil and gas revenues sets the state up for another boom and bust cycle. . .[leaving] state programs vulnerable to drastic budget cuts when prices drop.”*<sup>i</sup>

“Part III”, the change in the state deductibility of federal itemized deductions above the standard federal deduction, was repealed under the Blanco administration. Gov. Edwards wants to restore 57.5% of it.

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<sup>i</sup> Public Affairs Research Council, “PAR Says Proposed Tax Cut is Shortsighted Fiscal Policy,” May 30<sup>th</sup>, 2008.