

A Better Path Forward

Executive Summary

During the past two decades, Oklahoma lawmakers have reduced state government spending by 22 percent (adjusted for inflation and population growth). This means that each year our elected officials and policymakers have fewer dollars to answer today's needs or to invest in our state's future success — about \$2.1 billion fewer last year. With the state's loss of nearly a quarter of its capacity to support essential services, Oklahomans are not getting the public education, health care, social services, and infrastructure they need.

Worse still, the volatile revenue streams supporting Oklahoma's budget make it difficult for state agencies to consistently provide its services. Since 2000, the state has declared eight revenue failures, meaning that budgets already approved by the legislature and signed by the governor had to be cut on short notice in the middle or even near the end of the budget year.

Simply put: Oklahoma has cut its taxes and public services too much, and this has created real harms to the health, safety, and prosperity of all Oklahomans.

But, it doesn't have to be this way.

With *A Better Path Forward*, the Oklahoma Policy Institute seeks to stimulate public conversation about how Oklahoma can strengthen state revenue, better provide essential public services, level the playing field along racial and economic lines, and make meaningful investments in our future success.

Section 1: Oklahoma has insufficient revenue to support a thriving state

Oklahoma's shrinking state budget has damaged the state's ability to provide core services and compete with other states. Lower tax rates for high-income individuals, corporations, and oil and gas producers have reduced state services and harmed low-income families and persons of color. Expanding tax expenditures for specific groups has made all these problems worse, and supermajority legislative requirements for tax increases have prevented efforts to reverse our course during the past 30 years.

A Better Path Forward is available for download at okpolicy.org/ABetterPathForward, or you can use your phone's camera to access it via this QR code.



Section 2: Oklahoma’s tax system is regressive and unfair

Oklahoma’s current tax structure requires low- and middle-class taxpayers to pay a higher portion of their income in taxes than wealthier Oklahomans. These tax policy choices contribute to and perpetuate inequities based on race, ethnicity, gender, and location, making it harder for historically marginalized groups to catch up and get ahead. A more just tax system will level the playing field for all Oklahomans, providing more opportunity to save and build wealth. It will also benefit the economy, as equal opportunity for individuals expands the economy as a whole.

Section 3: How can we restore our commitment to the common good?

Even before the COVID-19 pandemic, Oklahoma faced a fiscal gap, or “structural deficit,” meaning that economic growth will not produce enough revenue to fund the growing costs of providing our current government services. Projections show that even after nearly a billion dollars in tax increases in 2016-18, this gap will reach \$1.1 billion annually by 2030. The state cannot afford more deterioration in its basic services, and budget cuts take much-needed money out of the economy. Cuts to state services also disproportionately impact low-income communities and communities of color.

Section 4: Conclusion

Appendix: Overview of options for Oklahoma’s fiscal future

Oklahoma’s elected officials — and the voting public — do not have to continue making the choices that have failed us. We can make taxes fairer for everyone. We can reverse the tax expenditures and incentives that have forced us to cut essential services. We can change our practices to shed light on budget-making decisions that are made in the dark while increasing citizen control over important fiscal decisions.

By the Numbers

If Oklahoma had maintained its state and local taxes at its 2004 level, the state budget would have been **\$2.1 billion** higher in 2017 than it actually was.

- In 2004, Oklahomans paid **\$9.20 of every \$100** they earned in state and local taxes, which declined to \$8.30 in 2018.
- In 2004, our taxes were one-half percent of income less than our regional average. By 2018, **the gap had nearly doubled** to a 0.9 percentage point difference.
- In 2010, Oklahoma handed out \$500 million to targeted tax expenditures for select individuals and businesses. By 2018, **these subsidies grew to \$4.4 billion annually**. And during the 2021 Legislative session, lawmakers expanded targeted incentive programs by more than \$100 million.
- One dollar of state government spending leads to **\$1.50 to \$2.50 in economic growth**, according to economists. Tax reductions, on the other hand, add just 35 cents to the economy for each dollar of reduction.
- Oklahomans carry tax obligations unequally: The **lowest 20 percent of earners pay 13.2 percent of their income in taxes**, while the top 20 percent (making \$89,100 or more) pays just 8.2 percent.
- Oklahoma is the **fifth-highest tax state** for low-income earners.
- Oklahoma's regressive **tax policies contribute to racial inequity**. On average, Black Oklahomans pay 9.4 percent of their income in taxes, while white Oklahomans pay only 8.7 percent.

Possible Tax and Budget Reforms

Require those who have benefited most from tax cuts to pay their fair share

- Add a new 6 percent income tax rate for incomes more than \$150,000 for single filers and \$300,000 for joint filers
- Add a new 5.5 percent tax rate for incomes more than \$75,000 for single filers and \$150,000 for joint filers
- Reinstate the estate tax
- Eliminate itemized deductions
- Exempt the same amount of Social Security income from state taxes as from federal
- Exempt Social Security from income tax entirely only for those making less than \$75,000-\$85,000 for single taxpayers
- Eliminate the deduction for contributions to the College Savings (529) Plan
- Repeal or narrow the Capital Gains Deduction
- Restore the corporate income tax to 6 percent
- Require combined corporate reporting
- Institute a \$250 annual minimum tax on C corporations and S corporations that pass income through to owners and make \$100,000 or more in gross income

Expand the sales tax base to make taxes sufficient and more equitable

- Apply the sales tax to more services, particularly those used by upper-income residents (examples: long-term auto leases, aircraft rentals, professional sports tickets)
- Apply the sales tax to streaming services and other digital downloads
- Eliminate exemptions for special purposes (such as newspapers sales, utilities, advertising, purchases by rural electric co-ops, and sales to churches)
- Eliminate the annual sales tax holiday
- Index all dollar-denominated taxes to increase with inflation

Enact structural changes to expand and diversify the revenue base

- Repeal or modify SQ 640 (limit to large tax increases, reduce legislative vote requirement, apply SQ 640's requirements to tax reductions, raise threshold to add new tax expenditures)
- Shift unpredictable severance tax revenue away from the General Revenue Fund and towards more long-term funding needs
- Explore creation of an interstate compact against corporate tax incentives
- Increase accessibility of Oklahoma's Volunteer Income Tax Assistance program
- Eliminate fees and fines and fund courts with state revenue
- Reform all tax incentives to help limit current and future costs (details listed in Section 3)

Make our tax system fair for all

- Increase the value of the state Earned Income Tax Credit to 10% of the federal credit and re-tie the state credit to the federal credit
- Increase the amount of the Sales Tax Relief Credit and the income eligibility limits
- Expand the low-income property tax credit to all homeowners and renters making less than \$12,000 annually
- Create a new renter tax credit equal to the value of the homestead exemption
- Repeal or limit the Five-Year Ad Valorem Tax Exemption for Manufacturing
- Buy back Tax Credits for Zero-Emission Facilities at a discounted rate
- Reconfigure the Investment/New Jobs Tax Credit program by reducing the credit amount, awarding the credit in the year of investment, and limiting the carry-forward period
- Repeal the Film Enhancement Rebate Program
- Repeal the Oklahoma Equal Opportunity Education Scholarship Act