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Oklahoma Policy Institute

LIFE-PRESERVERS: BALANCED SOLUTIONS TO OKLAHOMA'S BUDGET SHORTFALL

In recent years, policymakers have relied on budget cuts and one-time revenue fixes to bring the budget into balance. Critical state services have already been cut deeply and repeatedly, leading to severe teacher shortages, larger class sizes, higher tuition charges and user fees, understaffed facilities, reduced payments for health care and social service providers, long waiting lists for services, and other harmful consequences.

The dependence on one-time revenues has created a chronic budget hole that we can't fill even when tax collections improve. Now a mid-year revenue failure has forced most agencies to enact even deeper cuts, and Oklahoma expects to have \$901 million less for next year's budget than this year.

If we try to solve our budget crisis by doubling down on budget cuts and one-time revenues, we will only inflict greater damage to our economy and to the well-being of Oklahomans. Instead, we can and must solve this crisis through a balanced approach that includes new recurring revenues. Here are five reasonable solutions the Legislature should consider:

- **Repeal the most recent income tax cuts:** Oklahoma has cut the income tax by over \$1 billion since 2004, including the most recent 0.25 percent cut in January that was never meant to take effect while revenues are plummeting. Another tax cut is scheduled for as early as 2018 that would reduce revenues by an additional \$100 million if not repealed or suspended this session.
- **Adopt combined corporate reporting:** Most states with a corporate income tax have adopted a reform known as combined corporate reporting that closes a major tax loophole and ensures that multi-state corporations pay their fair share of taxes, just like local businesses.
- **End the double deduction:** Oklahoma is one of only six states that allows taxpayers who claim itemized deductions on their federal tax return to also claim the deduction for state income taxes on their state return. This deduction is an unintentional fluke of the law that serves no policy purpose.
- **Improve collection of taxes owed on online purchases:** By following the lead of several states in enacting a so-called "Amazon Law," the state can collect more of the tax that is owed on Internet purchases and end the unfair competitive disadvantage hurting local businesses.
- **Accept federal funds for health care:** Accepting federal funds to expand coverage to low-income adults would create savings for the state budget through additional tax dollars and by shifting costs that are currently paid for with state funds to the federal government. It would also provide a major economic boost to the state, help businesses by creating a healthier workforce, and avoid leaving the lowest-income Oklahomans in a "coverage crater" without insurance options.

Together, these solutions could generate hundreds of millions of additional recurring revenue, lessening the need for deeper cuts and helping put Oklahoma's economy and budget on a more sustainable path.

