

## Oklahoma Policy Institute

## OKLAHOMA INDIVIDUAL INCOME TAX BASICS

Oklahoma's individual income tax is the largest source of state revenue. In FY 2010, it made up about one-third of all state tax collections. Before the economic downturn, the income tax brought in more than \$2.5 billion a year.

Oklahoma's income tax is progressive, which means that the more money a household makes, the higher the proportion of their income they pay in taxes. Although tax cuts for the top income brackets in recent years have reduced its progressivity, the income tax remains an important balance to sales and property taxes in Oklahoma, which take a larger percentage of income from those who can least afford it.

### Three important concepts for understanding Oklahoma's income tax:

#### 1) taxable income, 2) tax brackets, and 3) effective tax rates.

**Taxable income** means income left over after the standard deduction, personal exemption, and any other deductions or exemptions a person may have are taken out. Taxpayers can choose to either take the standard deduction or itemize deductions. Most middle and lower income taxpayers choose the standard deduction, since it is typically higher than their itemized expenses that qualify for deductions. The standard deduction in Oklahoma matches the federal standard deduction, which changes each year based on the Consumer Price Index. In 2011 the standard deduction is:

- \$5,800 for unmarried taxpayers or married taxpayers filing separately;
- \$8,500 for taxpayers filing as head of household;
- \$11,600 for married taxpayers filing jointly.

Taxpayers can also exempt \$1,000 for each person in their household. For example, a married couple with two children filing jointly will not be taxed on the first \$15,600 of their income (\$11,600 + \$4,000 for 4 personal exemptions).

After deductions and exemptions are taken out, Oklahoma's **Tax Brackets** phase in as follows:

Single taxpayers and husband/wife filing separate returns:	Married joint filers, qualifying widows/widowers and heads of households (single parents):
0.5 percent on the first \$1,000 of taxable income	0.5 percent on the first \$2,000 of taxable income
1 percent on taxable income between \$1,001 and \$2,500	1 percent on taxable income between \$2,001 and \$5,000
2 percent on taxable income between \$2,501 and \$3,750	2 percent on taxable income between \$5,001 and \$7,500
3 percent on taxable income between \$3,751 and \$4,900	3 percent on taxable income between \$7,501 and \$9,800
4 percent on taxable income between \$4,901 and \$7,200	4 percent on taxable income between \$9,801 and \$12,200
5 percent on taxable income between \$7,201 and \$8,700	5 percent on taxable income between \$12,201 and \$15,000
5.25 percent on taxable income of \$8,701 and above.	5.25 percent on taxable income of \$15,001 and above.

The top bracket currently affects 56 percent of Oklahomans, according to the Institute on Taxation and Economic Policy. That is higher than most states with a graduated income tax, which reflects the choice of legislators not to index brackets to inflation or stretch them out for several decades, as well as a tax cut that eliminated a higher bracket in 2007. [Continued on Next Page]

**OK Policy is a 501(c)3 organization that provides information, analysis and ideas on state policy issues.**

Oklahoma Policy Institute | P.O. Box 14347 | Tulsa, OK 74159-1347 | (918) 794-3944 | [info@okpolicy.org](mailto:info@okpolicy.org)

Fact Sheet authored by Gene Perry | [gperry@okpolicy.org](mailto:gperry@okpolicy.org)

**Effective tax rates** are the actual percentage of a household's income that is paid in state income tax. When a taxpayer goes to a higher bracket, the new rate applies only to their income above the dividing line. For example, a joint-filing married couple with two children that makes \$50,000 a year will first subtract deductions and exemptions to come up with taxable income of \$34,400. They will pay the top 5.25 percent rate on only \$19,400 of that income, with the rest taxed in their respective lower brackets as follows:

<b>Taxes paid by joint-filing married couple with two children, \$50,000 income.</b>		
\$2,000 x 0.5%	=	\$10
\$3,000 x 1%	=	\$30
\$2,500 x 2%	=	\$50
\$2,300 x 3%	=	\$69
\$2,400 x 4%	=	\$96
\$2,800 x 5%	=	\$140
\$19,400 x 5.25%	=	\$1,019
<b>TOTAL</b>	<b>=</b>	<b>\$1,414</b>

**This family's effective tax rate is then the tax payment of \$1,414 divided by total income, which works out to:**

**2.83 percent**

By comparison, a family with income of \$35,000 would pay \$626 in taxes for an effective rate of 1.79 percent, whereas a family with \$100,000 in income would pay \$4,039 for an effective rate of 4.04 percent.

The graph below shows the effective income tax rates for families at different income levels. Although Oklahoma's top tax bracket is currently 5.25 percent, a family of four would need to make close to \$500,000 (putting them in the top 1 percent of Oklahoma households) before their effective tax rate increases above 5 percent.

**Effective Tax Rates for Married Joint Filers with Two Children, Standard Deduction**

