

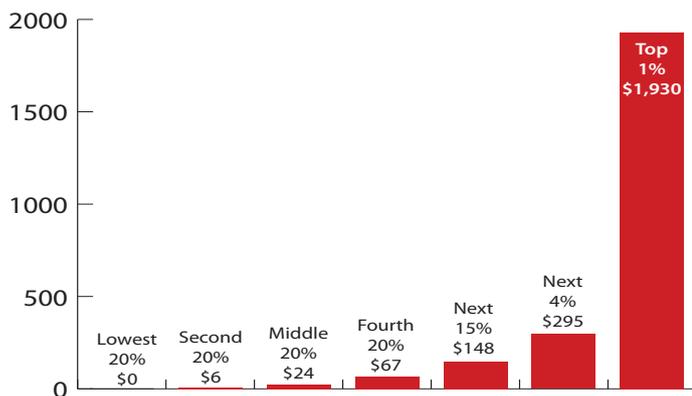
### CUTTING OKLAHOMA'S TOP INCOME TAX RATES: WHO BENEFITS?

by Gene Perry

Unless the legislature acts to stop it, another state income tax cut will take effect January 1, 2012. The cut, which was triggered when the state projected that revenue will rise by more than 4 percent next year, is the last of a series of income tax reductions passed from 2004 to 2006. At that time, the top income tax rate was cut from 6.65 percent to 5.5 percent; next year's reduction will bring it down to 5.25 percent. The next cut is projected to reduce available revenues for FY '12 by \$38 million. When the cut is fully phased-in, revenues will be reduced by \$120 million.

At OK Policy's request, the Institute on Taxation and Economic Policy provided a distributional analysis of the benefits of the tax cut. They find that the average state tax cut would be divided up as follows:

#### Average Tax Cut Per Household Due To Reducing Top Rates From 5.5% to 5.25%



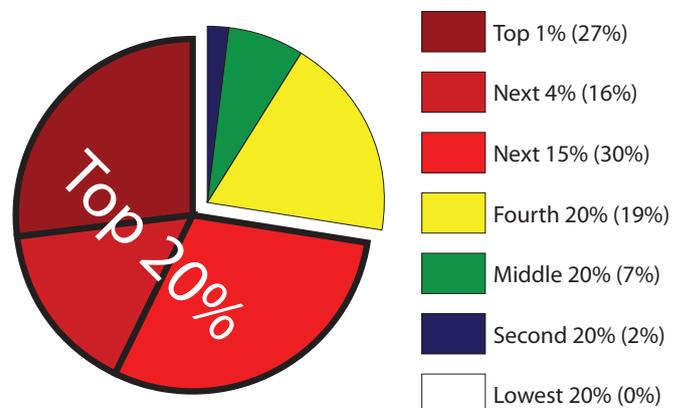
DATA SOURCE: Institute on Taxation and Economic Policy, February 2011

- The lowest 20 percent of households (incomes less than \$17,300) see no change in taxes;
- The second 20 percent (incomes of \$17,300 to \$31,200) get an average cut of \$6, though many within that group would not see any change;
- The middle 20 percent (incomes of \$31,200 to \$51,800) receive an average of \$24;
- The fourth 20 percent (\$51,800 to \$85,800) get an average cut of \$67;
- The next 15 percent (incomes of \$85,800 to \$176,000) take an average of \$148;
- The next 4 percent (\$176,000 to \$399,100) get an average of \$295;
- The top 1 percent of Oklahomans (households with incomes higher than \$399k) receive an average of \$1,930.

Another way to look at the numbers is how much of the overall cut goes to each group as a whole. As seen to the right, the top 20 percent of Oklahoma households take home almost 3/4ths of the tax cut. More than a third of that goes to the top 1 percent. The bottom 60 percent of Oklahomans together receive only 9 percent of the benefit. **Forty-three percent of Oklahomans would receive no tax cut at all.**

By taking so much revenue away and giving the benefits to a relatively small group, the state will be shifting a larger proportion of the cost of providing services onto lower- and middle-income Oklahomans. As we consider how to pay for the state's current and future needs, we need to examine our priorities and make careful choices to ensure that our prosperity is widely shared.

#### Share Of Tax Cut Due To Reducing Top Rates From 5.5% to 5.25%



DATA SOURCE: Institute on Taxation and Economic Policy, February 2011