

# 11 Things You Should Know about Oklahoma Budget and Taxes

Summer Policy Institute  
August 6, 2013

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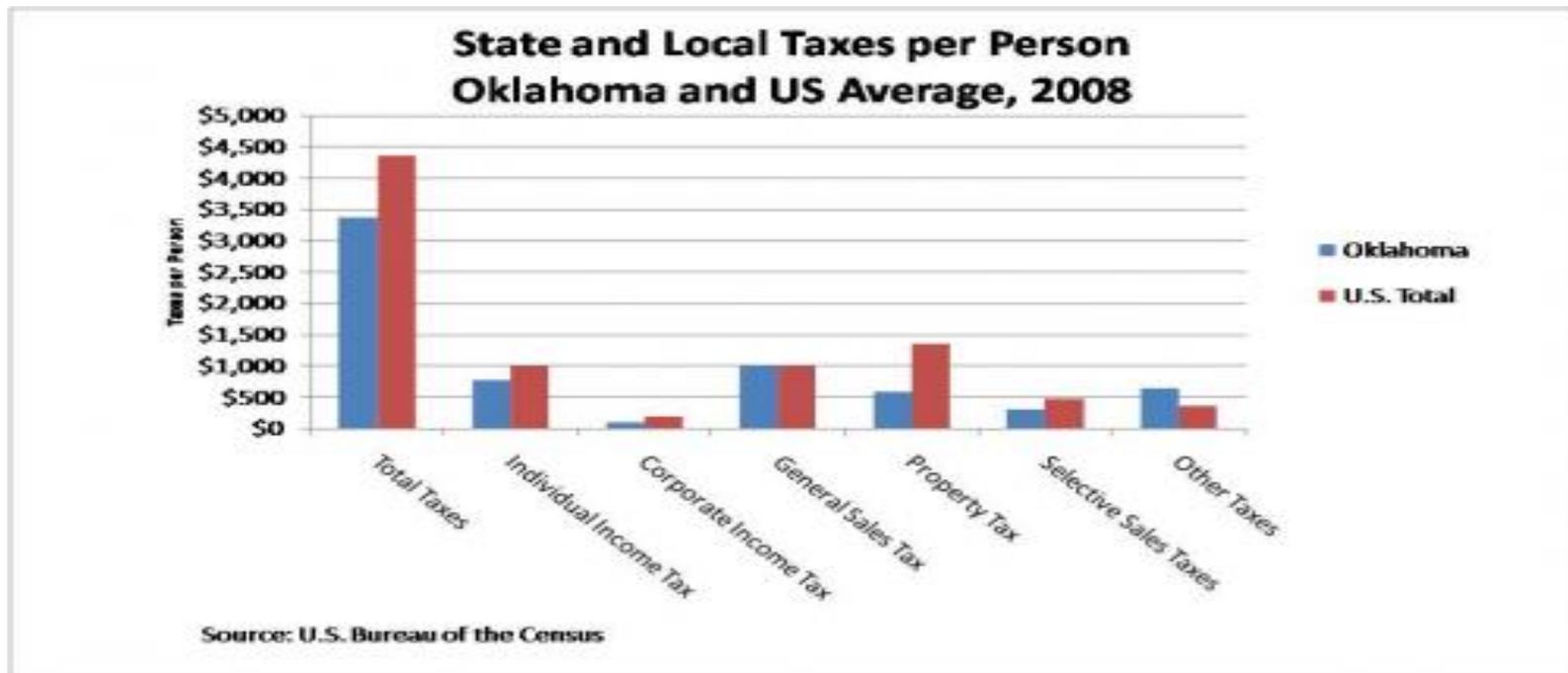
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# 1. Oklahoma is a low-tax state

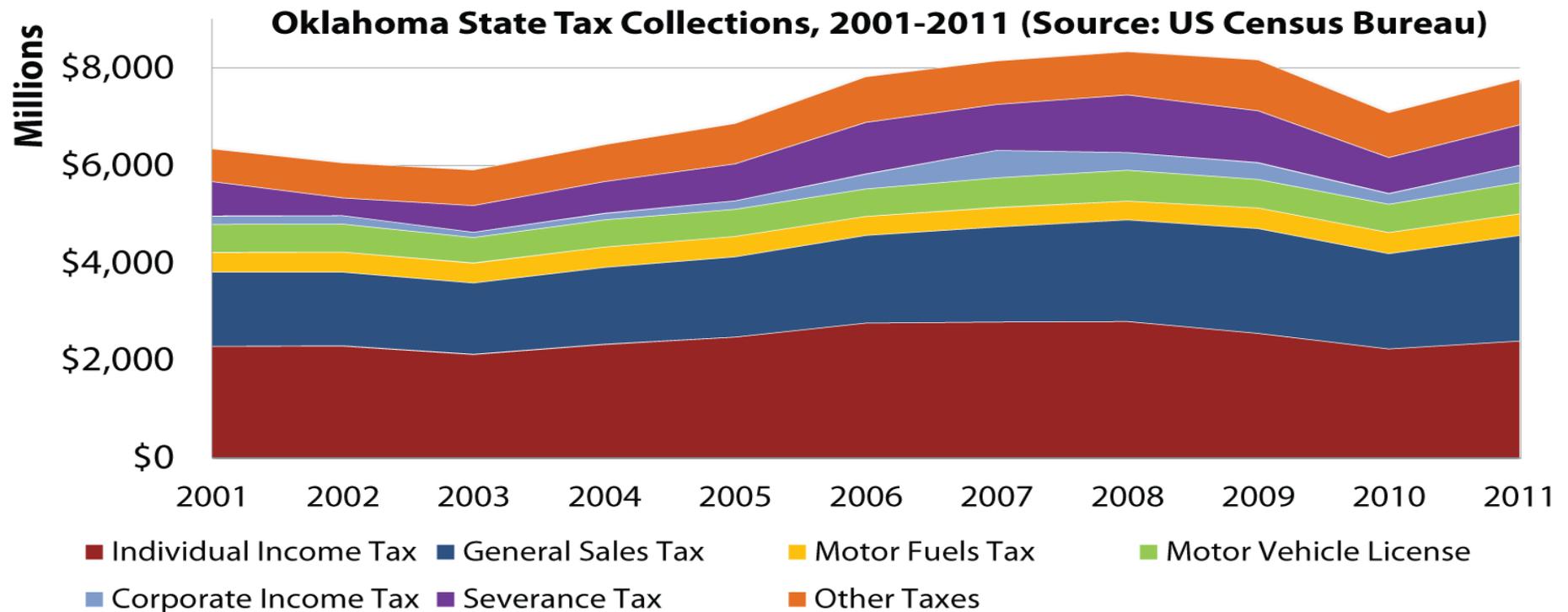
- Oklahomans pay \$992 per person less in taxes than the national average
- Oklahomans' taxes were 40th in the nation per person and 40th as a share of personal income (2009)



## 2. Oklahoma has a balanced tax mix

The six largest sources accounted for 88 percent of all tax revenues in 2011:

- Personal Income Tax – 30.7 %
- General Sales Tax – 28.0%
- Gross Production Tax (Severance) – 10.7%
- Motor Vehicle Tax – 8.2%
- Motor Fuels Tax – 5.8%
- Corporate Income Tax – 4.6%

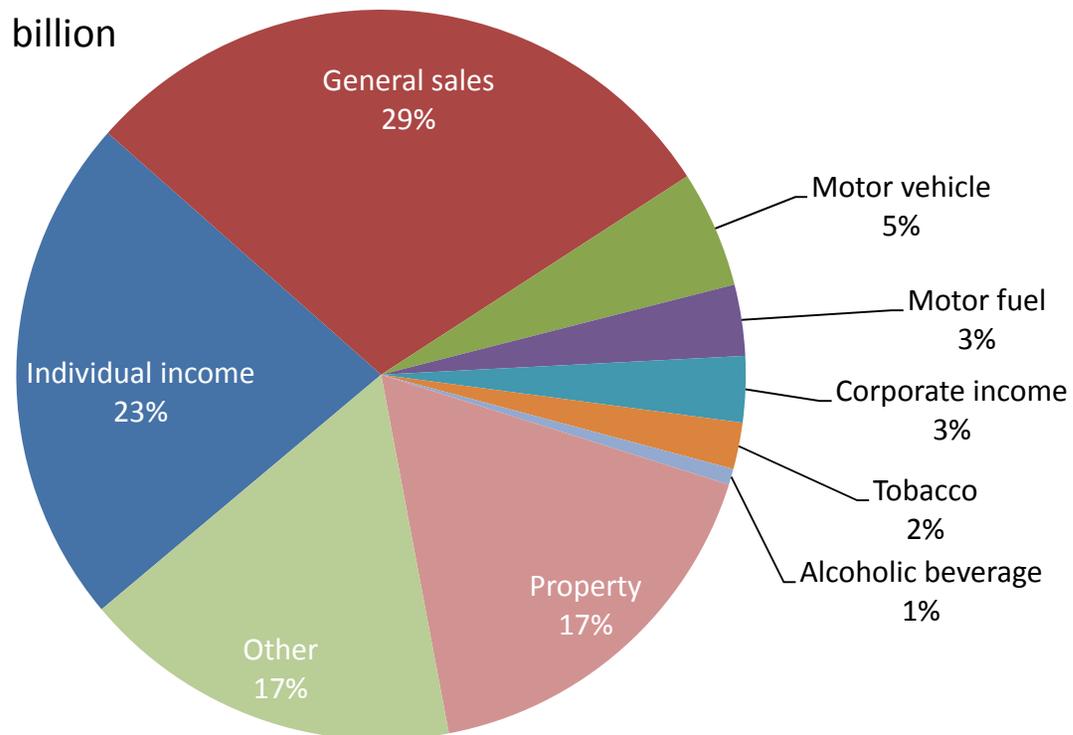


## 2. Oklahoma has a balanced tax mix

- Sales tax is the largest tax source when state and local taxes are combined

**State and Local Taxes by Source, 2008**

Total=\$12.3 billion

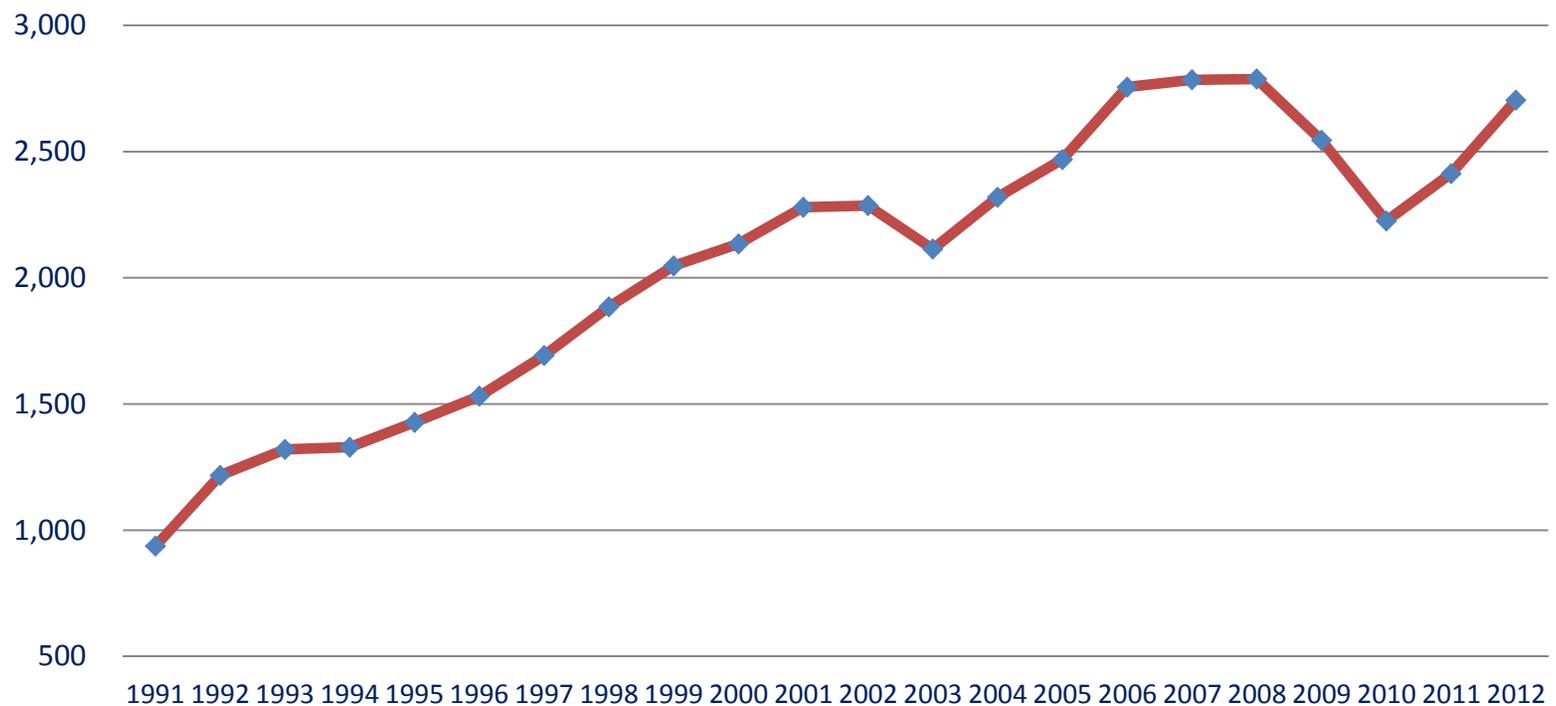


Source: U.S. Census Bureau

## 2. Oklahoma has a balanced tax mix

- Personal income tax is the largest state tax, but tax cuts and the recession have dampened collections since 2005

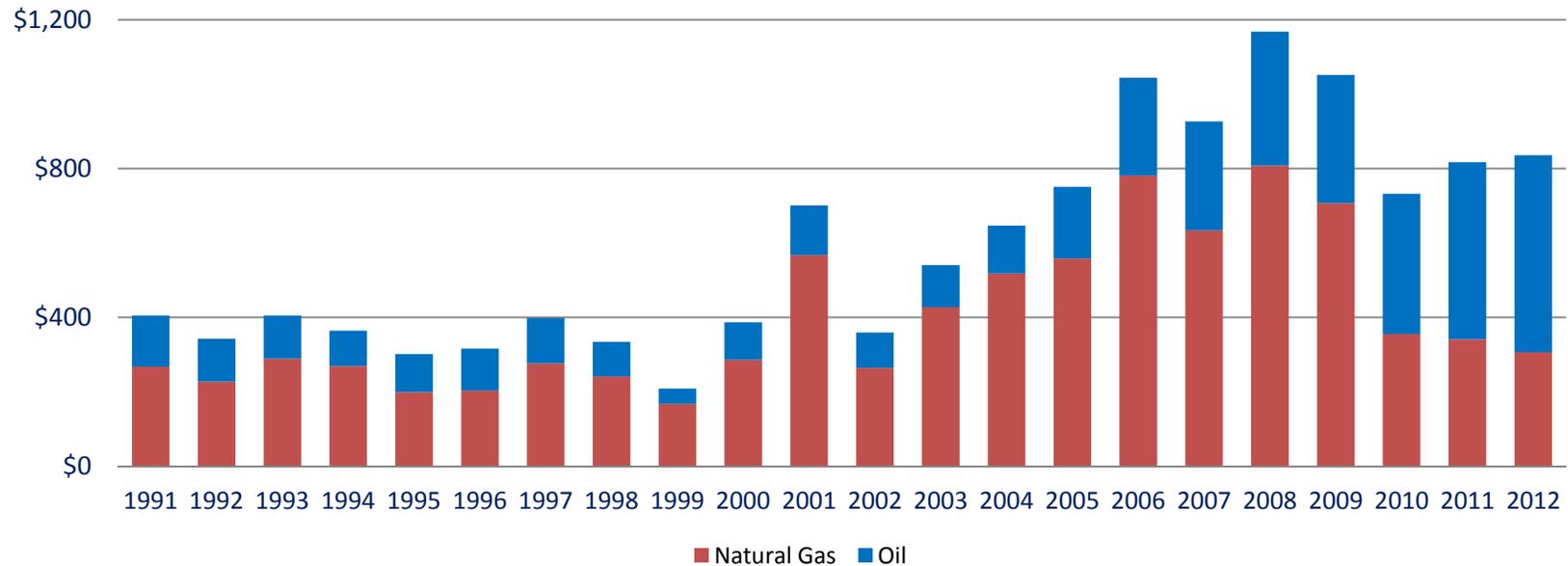
**Oklahoma Personal Income Tax Collections,  
FY 1991 - FY 2012 (in millions)**



## 2. Oklahoma has a balanced tax mix

- Oil and gas (gross production) taxes are typically the third largest state tax – and the most volatile

**Oklahoma Annual Natural Gas and Oil Tax Collections,  
FY '91 - FY '12 (in \$ millions)**



## 2. Oklahoma has a balanced tax mix

- Oklahoma's property taxes are the 4th lowest in the nation (2008)
- Oklahomans pay less than half the national average in per capital property tax

|                                      | Property taxes<br>per person,<br>2008 | Total state and<br>local taxes per<br>person, 2008 |
|--------------------------------------|---------------------------------------|--|
| Oklahoma                             | \$ 580                                | \$3,379  |
| Average of six neighboring<br>states | \$ 989                                | \$3,716  |
| National Average                     | \$ 1,346                              | \$4,371  |

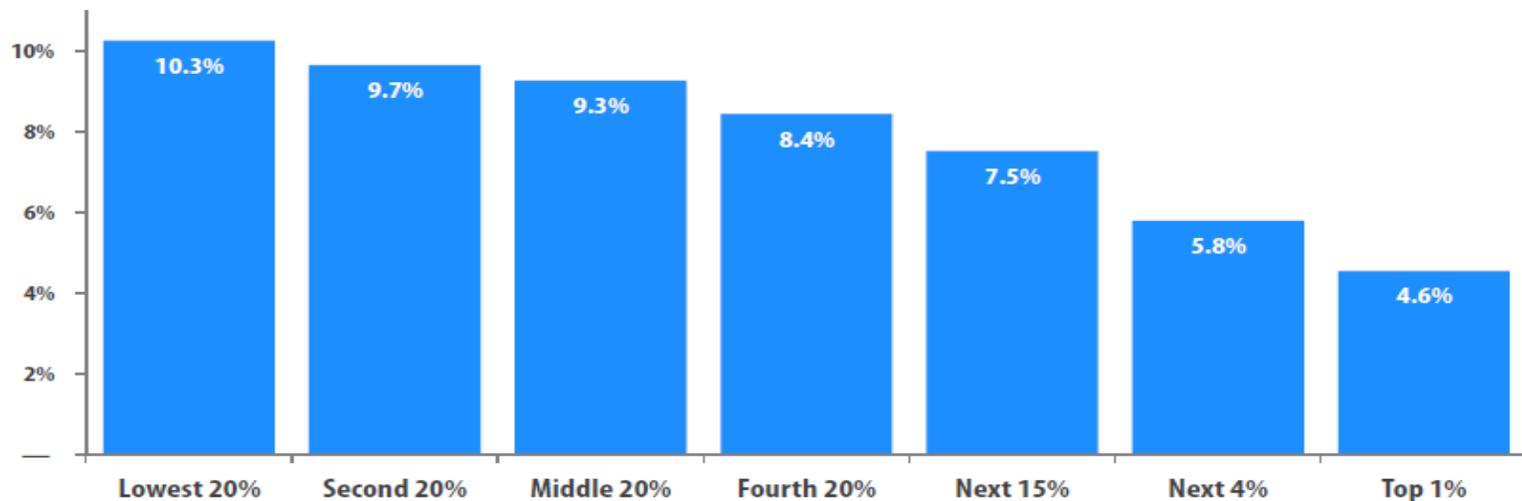
Source: CQ Press, State Rankings 2011 from U.S. Bureau of the Census  
Data, Government Division

### 3. Low-income Oklahomans pay more

- Lowest-income households pay more than twice as much of their income in state & local taxes as wealthiest 1 percent of households

#### Oklahoma State & Local Taxes

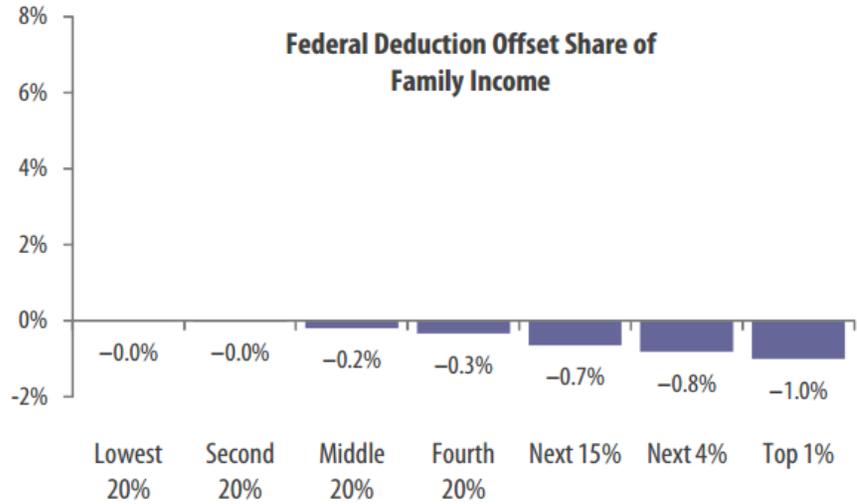
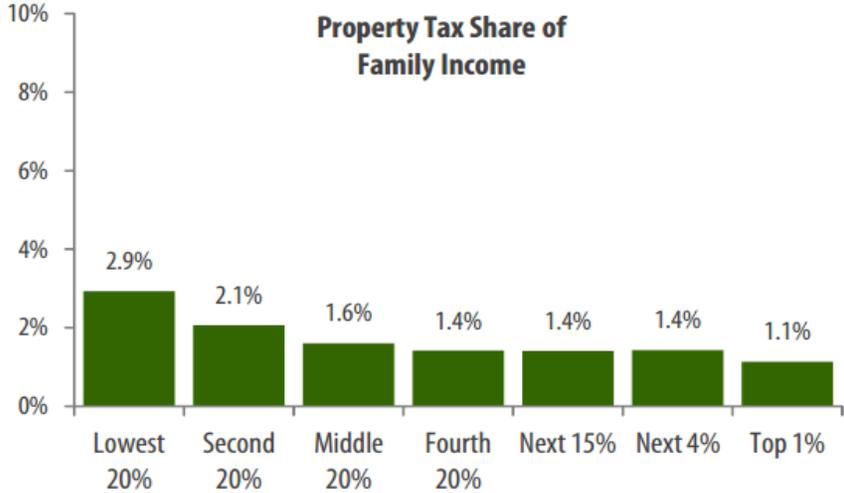
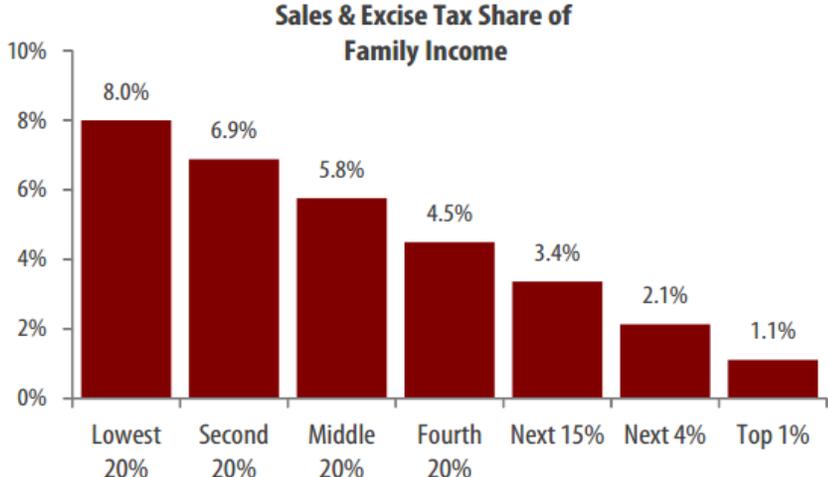
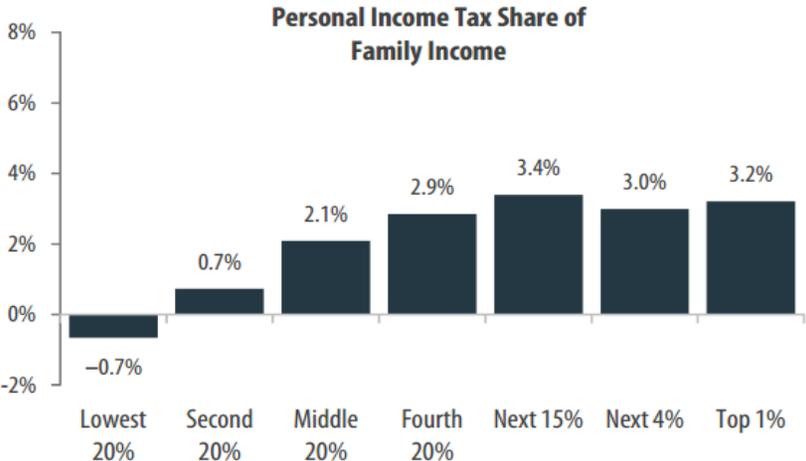
Shares of family income for non-elderly taxpayers



Source: Institute for Taxation and Economic Policy, **Who Pays?**, 3<sup>rd</sup> ed., 2012 <http://www.itep.org/pdf/ok.pdf>

# 3. Low-income Oklahomans pay more

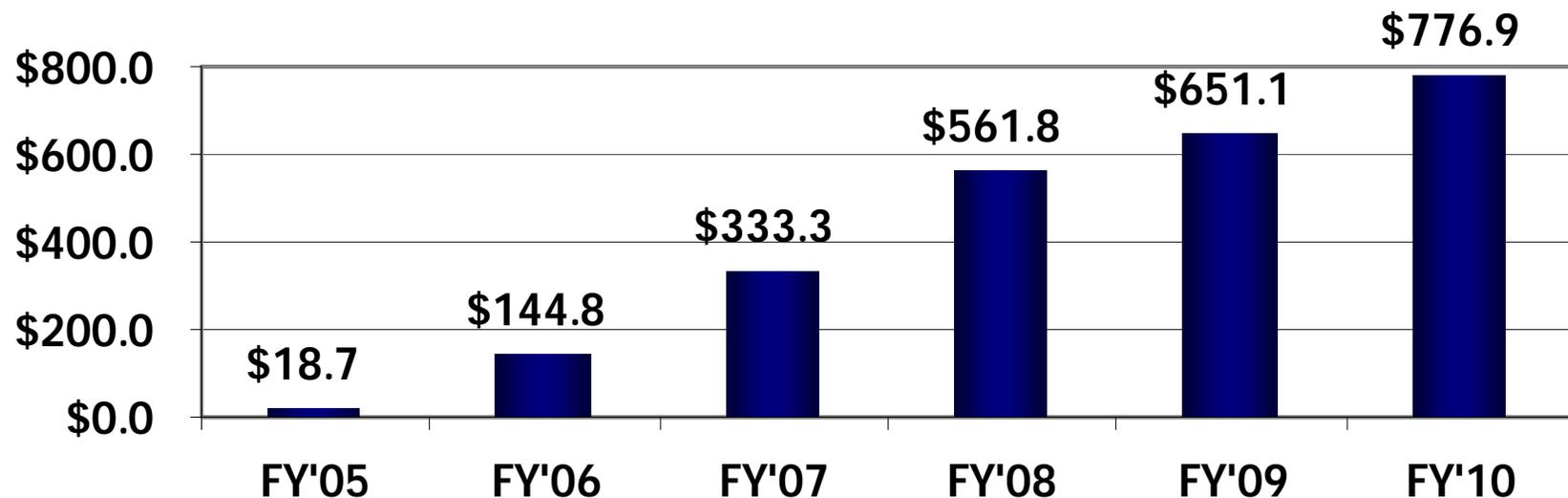
- Progressive effects of income tax more than offset by regressive effect of sales and property taxes



## 4. Taxes were cut substantially in the mid-2000s

- Income tax cuts enacted between 2004-07 were large, permanent and back-loaded

Lost Revenues from Select Tax Cuts Enacted 2004 - 2006  
FY'05 through FY'10 (in \$ millions)

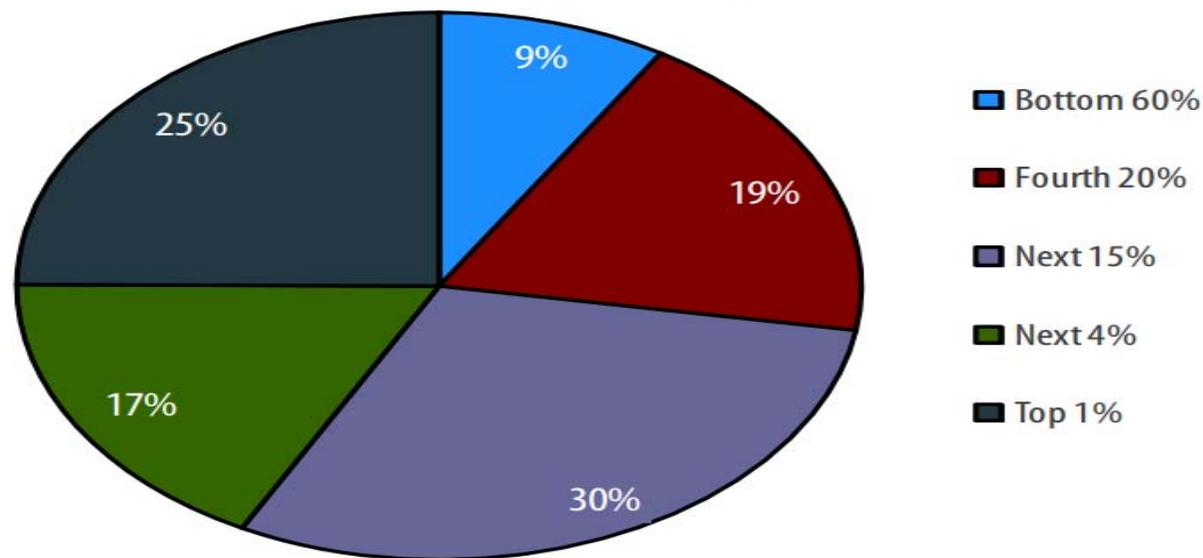


source: Oklahoma Tax Commission

## 4. Taxes were cut substantially in the mid-2000s

- Over 70 percent of the benefit from income tax cuts of mid-2000s went to the top 20 percent of households

Share of Tax Cuts from Recent Reduction in Top Personal Income Tax Rate in Oklahoma  
by Income Group

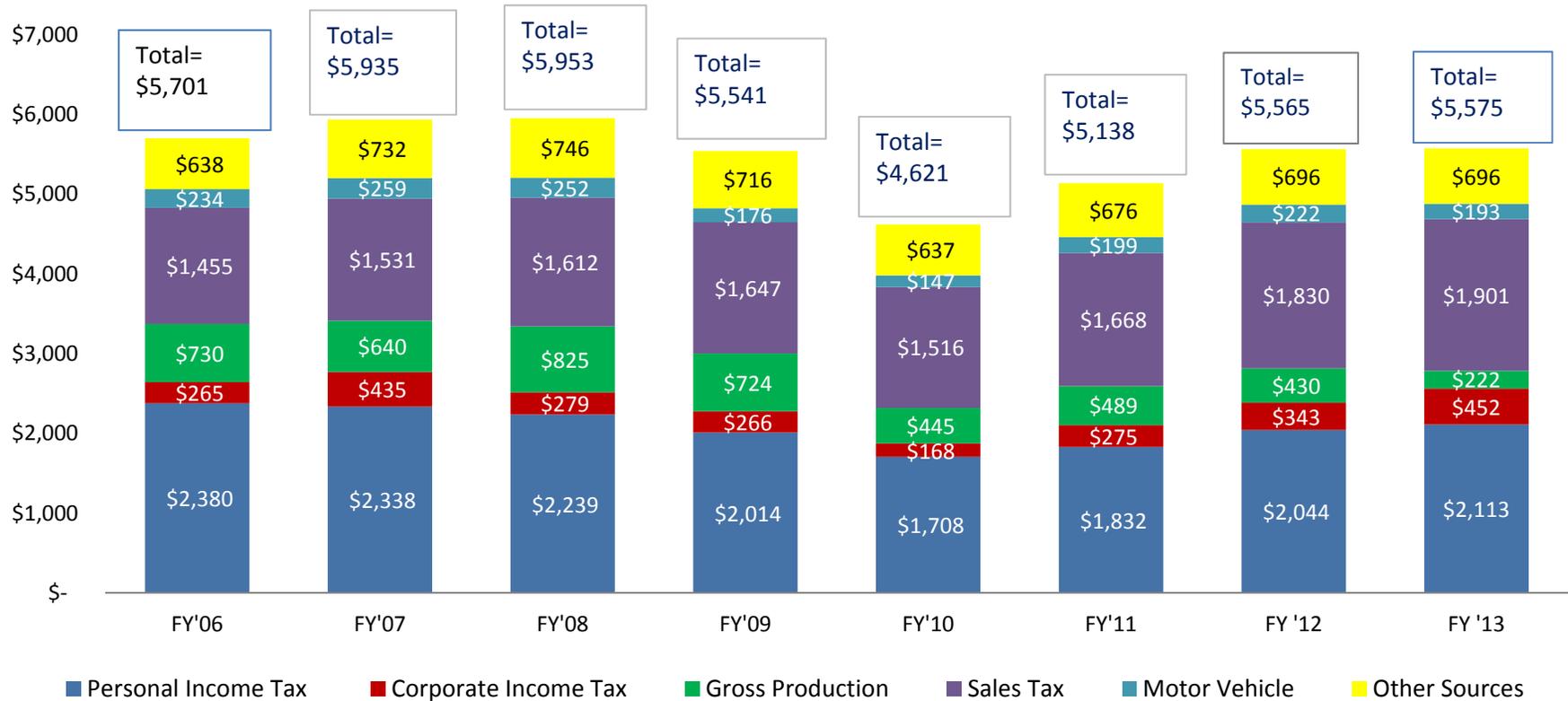


Source: Institute for Taxation and Economic Policy, **Who Pays?**, 3<sup>rd</sup> ed., 2012 <http://www.itep.org/pdf/ok.pdf>

# 5. Revenues have not recovered to pre-downturn levels

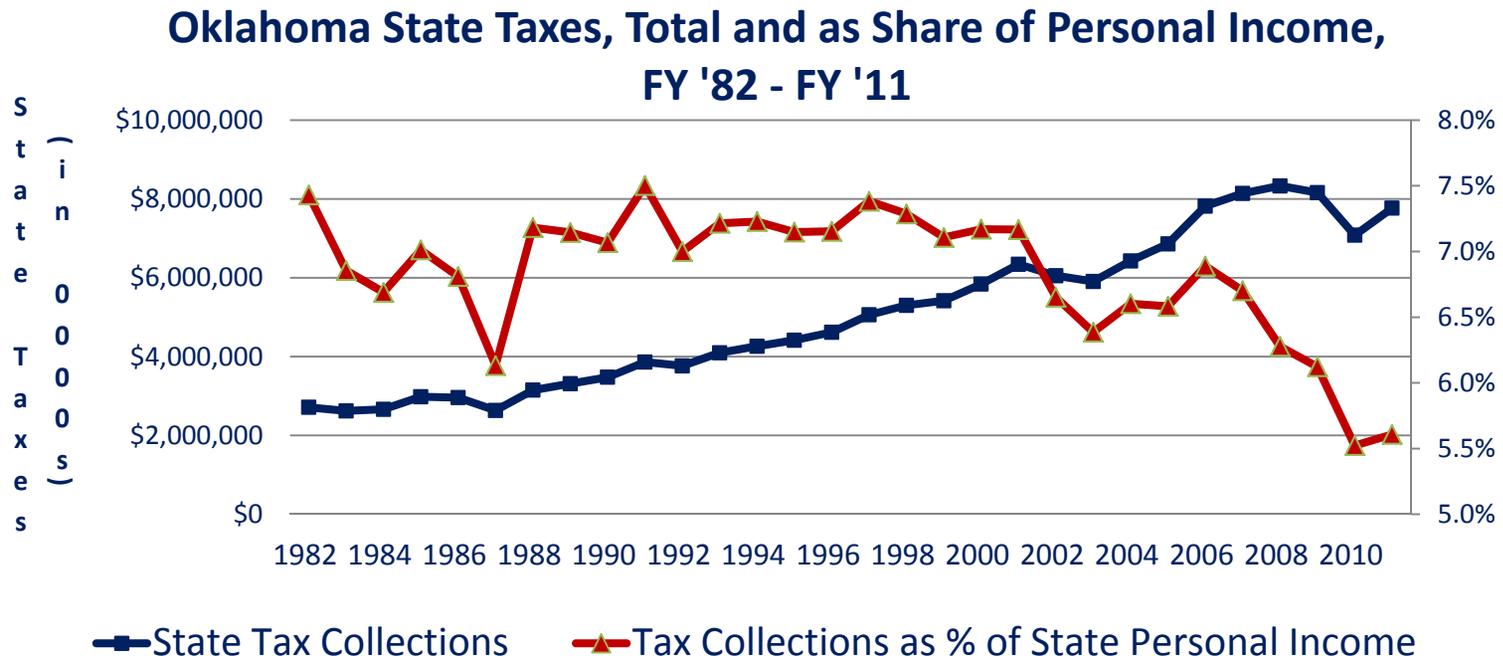
- Gen. Rev. collections in FY 2013 were 6.3 percent below FY 2008
- FY 2013 collections flat compared to FY 2012

Oklahoma General Revenue Collections, FY '06 - FY '13 (in \$ millions)



# 5. Revenues have not recovered to pre-downturn levels

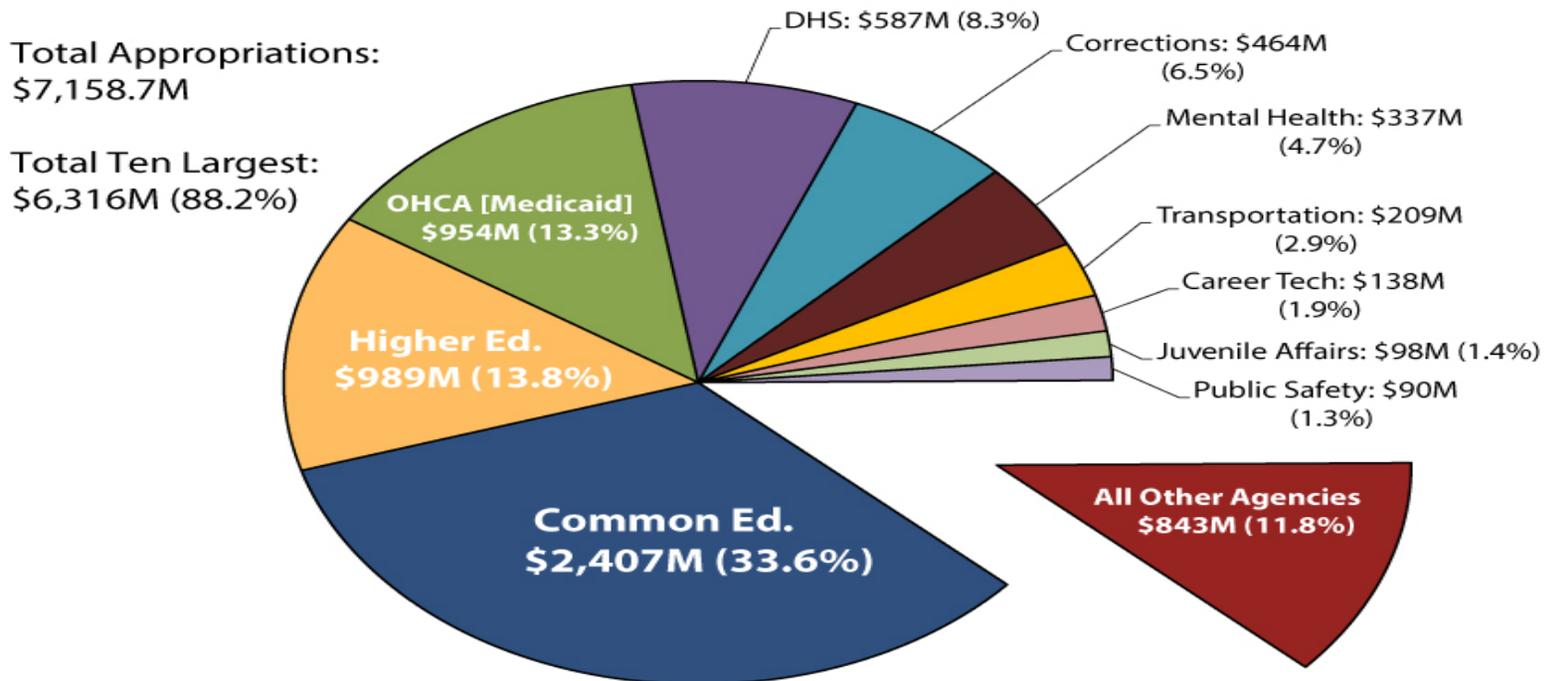
- In FY '11 tax collections equaled 5.6 percent of state personal income, compared to 7.2 percent in FY '01
- Tax collections have not kept pace with personal income since FY '06



# 6. Most of the state budget funds 10 agencies

- 88 percent of appropriations go to core services in education, health, human services, public safety & transportation

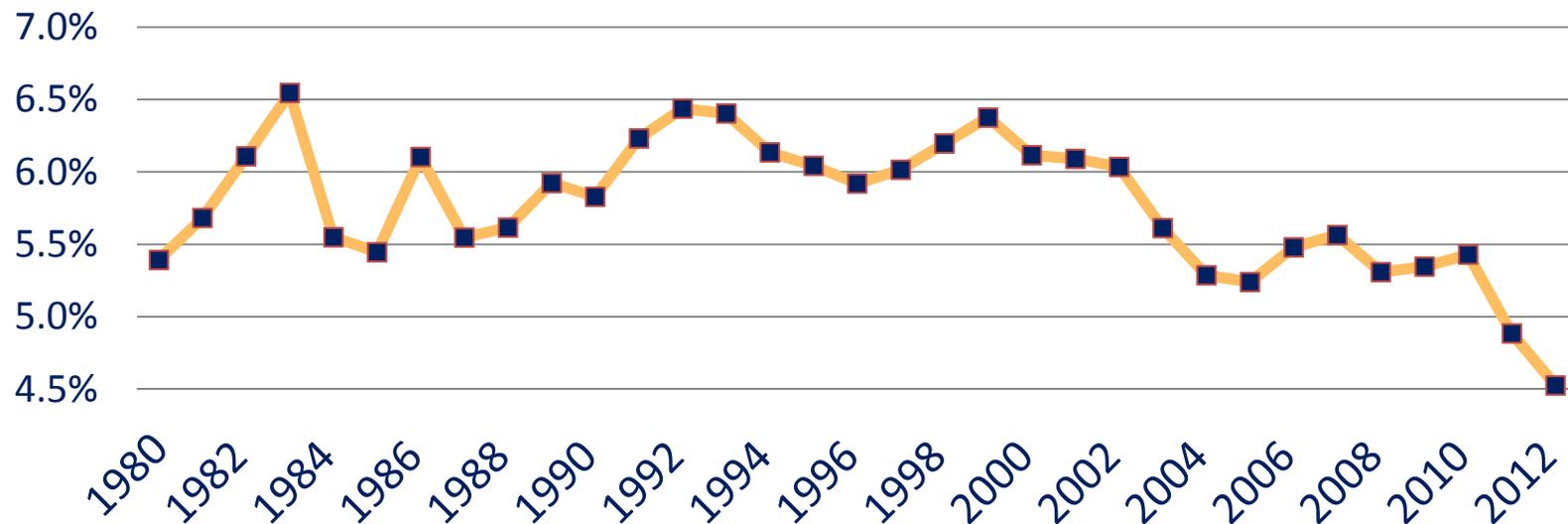
**FY 2014 Appropriations to Ten Largest Agencies**  
(total includes \$45M from Rainy Day Fund for tornado relief)



# 7. State budgets have been cut sharply in recent years

- State appropriated spending reached its lowest level in at least 30 years in FY '12

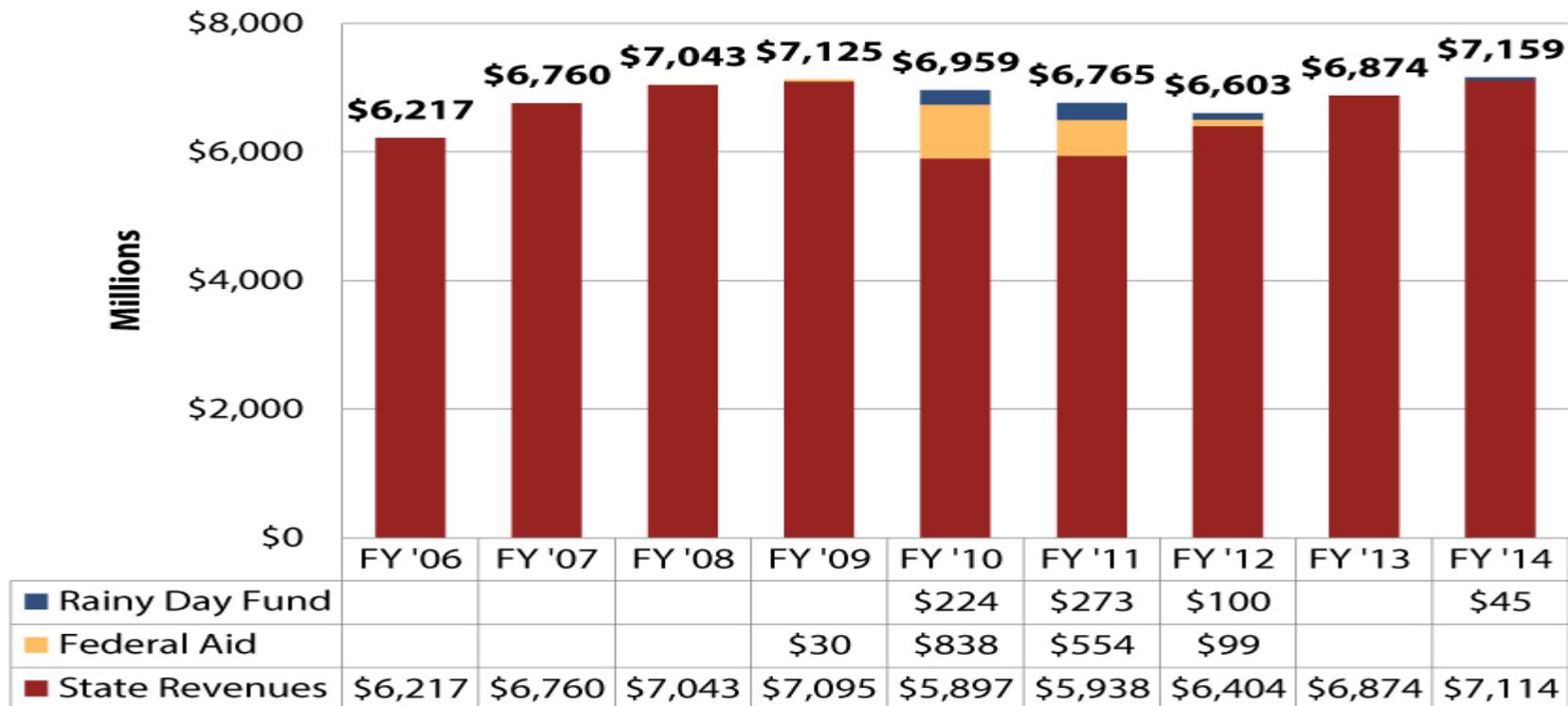
**State Appropriations as Share of State Personal Income, FY '80 - FY '12**



# 7. State budgets have been cut sharply in recent years

- Next year's budget is just 0.5 percent more than five years ago – without adjusting for inflation

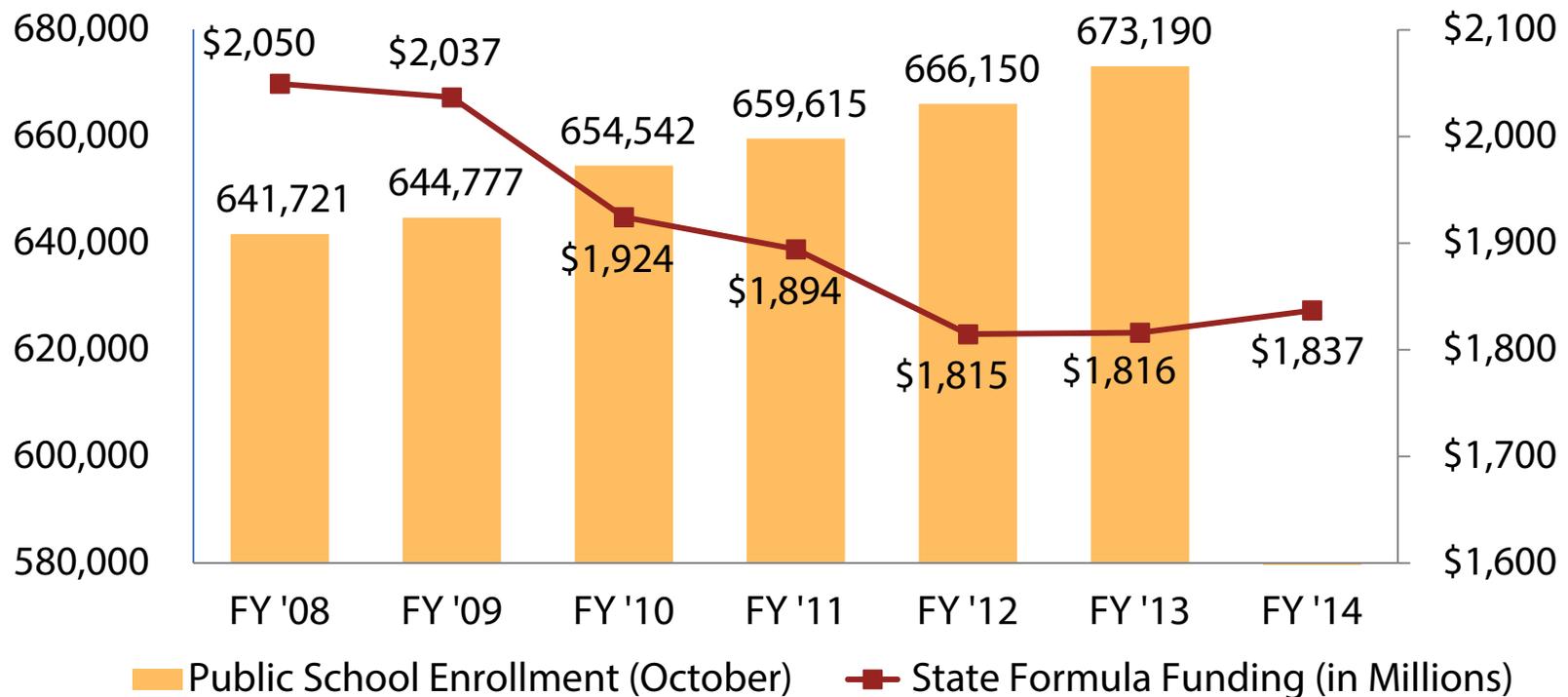
**State Appropriations, FY 2006 to FY 2014**  
(in \$ millions; includes supplementals, Rainy Day spillover funds)



# 7. State budgets have been cut sharply in recent years

- Funding for common education is down by over \$200 million while enrollment has increased by over 30,000 students

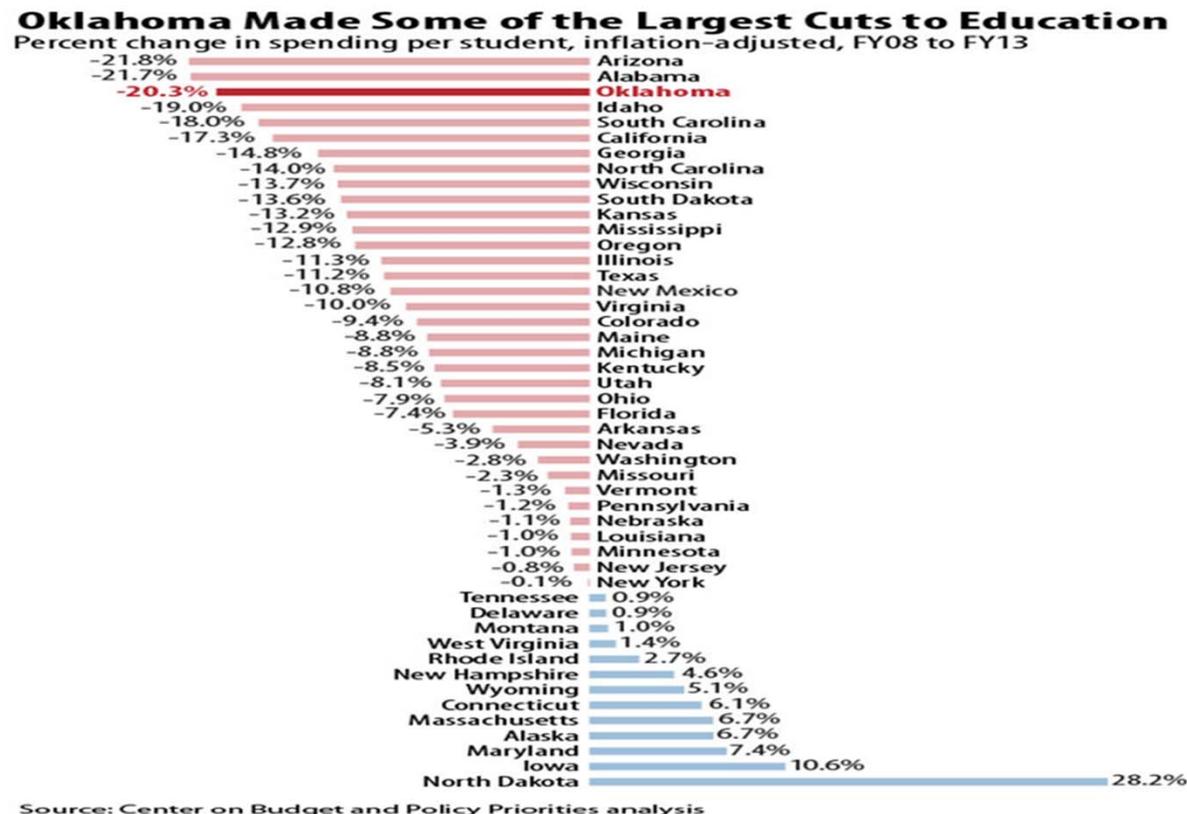
Public School Enrollment and State Formula Funding, FY 2008 – FY 2014



Note: State Funding excludes money allocated for textbooks

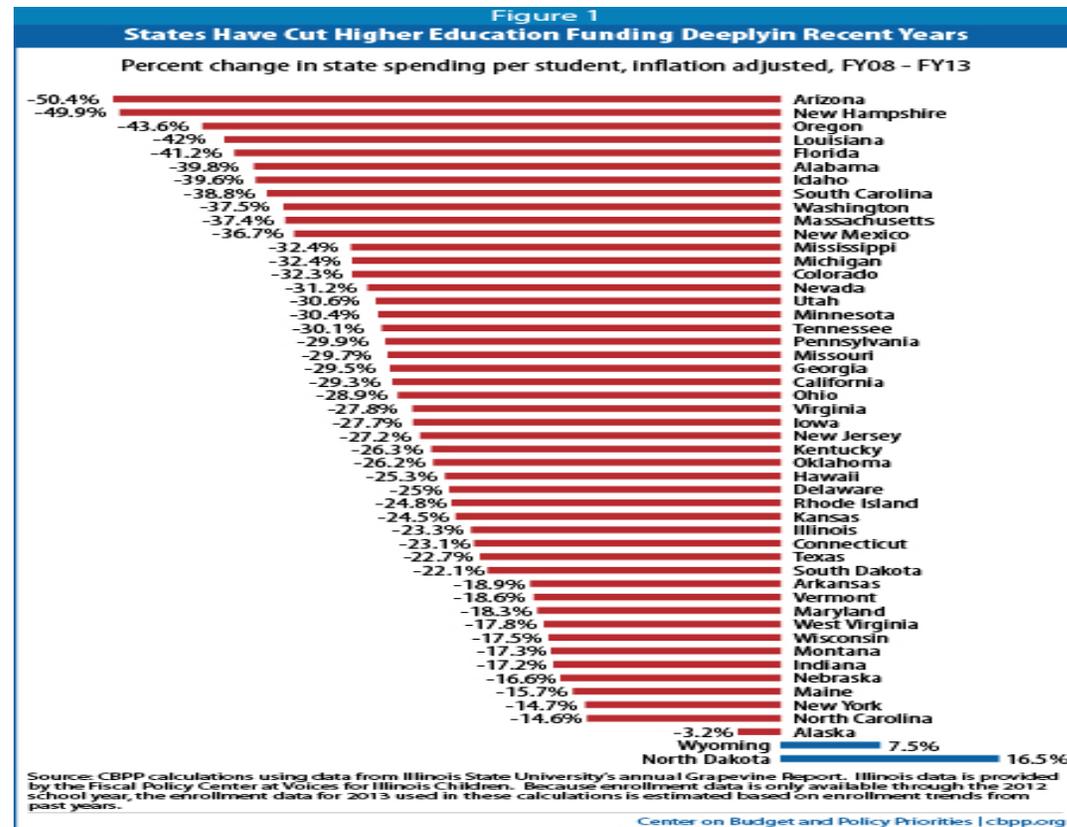
# 7. State budgets have been cut sharply in recent years

- Per pupil funding in Oklahoma has been cut by 20.3 percent since 2008 (adjusted for inflation)
- Third steepest cuts in the nation behind Arizona and Alabama



# 7. State budgets have been cut sharply in recent years

- Per pupil higher education funding in Oklahoma has been cut by 20.3 percent since 2008 (adjusted for inflation)



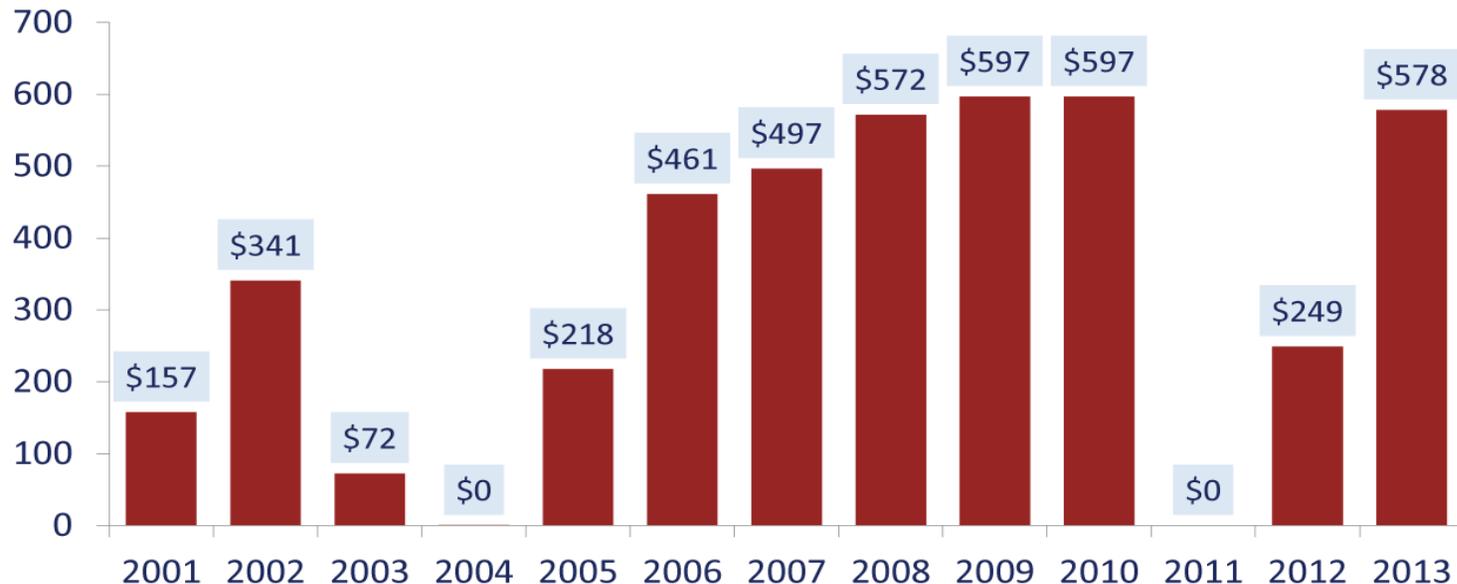
## 8. Oklahoma has a strict system of constitutional tax & spending limits

- Balanced budget requirement;
- The legislature can appropriate only 95 percent of certified funds for the upcoming year;
  - If actual revenue collections fall below 95 percent of the certified projection, a budget shortfall is declared and across-the-board cuts are implemented
- It requires a  $\frac{3}{4}$  vote of both legislative chambers or a vote of the people to raise taxes (SQ 640);
- No state property tax or local income tax;
- Changes in property taxes require statewide vote

## 8. Oklahoma has a strict system of constitutional tax & spending limits

- Surplus revenues are deposited into the Constitutional Reserve Fund (Rainy Day Fund);
- Rainy Day Fund can be spent in cases of revenue shortfalls or upon declaration of an emergency

**Rainy Day Fund Fiscal Year Opening Balances (in \$ millions)**



## 9. Oklahoma faces serious short-term budget challenges

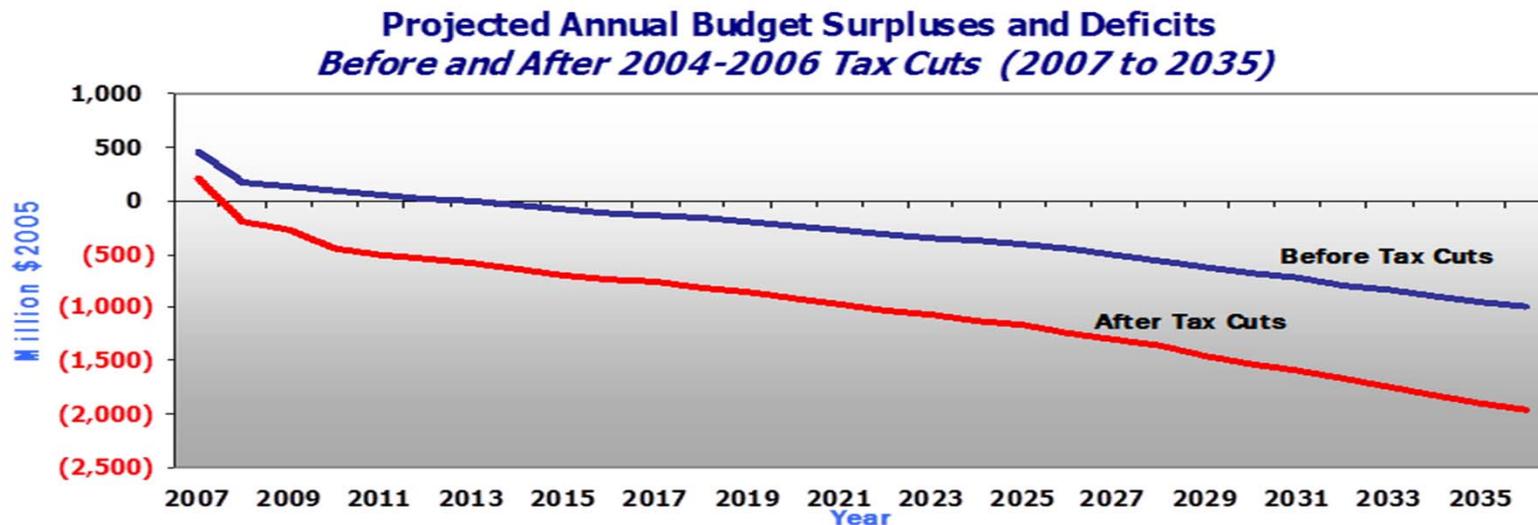
- State employees have gone 6 years without a pay raise;
- Prisons are at 99 percent capacity with 70 percent staffing;
- Thousand of Oklahomans with developmental disabilities and mental illness are on waiting lists for services;
- Schools must meet costly new mandates;
- Federal budget cuts

## 9. Oklahoma faces serious short-term budget challenges

- Tax cut approved in 2013 lowers the top income tax rate from 5.25 percent to 5 percent in 2015 and to 4.85 percent in 2016 (based on a trigger)
- Fiscal impact: \$54 million in FY 2015;
  - \$176.5M FY 2016; \$243 M FY 2017
- Benefits go disproportionately to the wealthiest:
  - 41 percent of household get \$0
  - Median household gets \$30
  - Top 1 percent gets \$2,031
- Bill faces constitutional challenge

# 10. Oklahoma faces serious long-term budget challenges

- Structural deficit: A situation that occurs when a state’s “normal growth of revenues is insufficient to finance the normal growth of expenditures year after year”



Source: Projections conducted in 2007 by Dr. Kent Olson, Professor of Economics, Oklahoma State University

# 10. Oklahoma state faces serious long-term budget challenges

- Contributors to the structural deficit:
  - Rising health care costs
  - Unfunded pension liabilities
  - Mass incarceration
  - Outdated tax system
  - Fiscally irresponsible tax policies

# 11. Oklahoma needs sensible tax reform

We must create a revenue structure that allows us to meet our obligations and ensure our prosperity

- Avoid further income tax cuts
- Review and reduce tax credit programs:
- Adopt combined corporate reporting;
- Modernize the sales tax;
- Target any tax relief towards those in greatest need;
- Adopt “pay-go” requirement for tax cuts and new spending

## For More Information

- Oklahoma Policy Institute budget and taxes page: <http://okpolicy.org/issues/responsible-budget-taxes>
- Oklahoma Policy Institute Online Budget Guide: <http://okpolicy.org/resources/online-budget-guide>
- Center on Budget and Policy Priorities: <http://www.cbpp.org>
- Office of Management and Enterprise Services: <http://www.ok.gov/OSF/>
- State Treasurer's Office: <http://www.ok.gov/treasurer/>
- Institute on Taxation and Economic Policy: <http://itepnet.org/>