

# A Better Path Forward

A BUDGET & TAX ROADMAP FOR OKLAHOMA



**OKPOLICY**  
Oklahoma Policy Institute



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## About the Oklahoma Policy Institute

The Oklahoma Policy Institute is a non-partisan, non-profit organization focused on advancing equitable and fiscally responsible policies that expand opportunity for all Oklahomans through non-partisan research, analysis, and advocacy. Based in Tulsa, the organization was founded in 2008 as a think tank to provide independent, data-driven policy analysis for use in shaping policies that improved the lives for all Oklahomans. For more information about OK Policy and its mission, visit [OKPolicy.org](http://OKPolicy.org).

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# A Better Path Forward

## Introduction

Fiscal policy is moral policy. When we fund government services, we are acknowledging and strengthening a community of shared values, responsibility, and destiny. When we decide how to pay for government, we are assessing responsibility for supporting that community. Oklahoma's fiscal policy over the last two decades has reflected a dramatic and harmful shift as the state has disinvested in essential programs and services. As a result, we are not fulfilling our shared responsibility for the success of either our state or the people who call it home. The state has prioritized lower taxes over adequate services. Children achieve less in school, and we are increasingly a less educated population than the rest of America. Our health outcomes are among the worst of any state. We've neglected to invest in the services that attract new businesses and residents, like schools, job training, infrastructure, and quality of life. As a result, we trail much of the nation in both incomes and outcomes.

We have also shifted the responsibility for paying services to those who can least afford it. Oklahoma's tax structure, besides being inadequate to meet our needs, is unfair. Oklahomans in the lowest income brackets pay the largest share of their income in state and local taxes; this makes it more difficult for low- and middle-income Oklahomans to support their families and secure their own futures. As a result, we are perpetuating and widening our economy's structural discrimination based on race, sex, and age.

Our tax laws are riddled with provisions that violate the most basic principle of fairness: that those equally situated should be treated equally. In Oklahoma, your tax bill is only partly determined by your income; it could also depend on your age, how you earn your living, and whether you own or rent a house.

The budget process itself is anything but transparent. Those with resources, time, access, and something to gain from policy have dominated the shaping of fiscal policy. The legislature has not held public budget hearings or meetings, and lawmakers have circulated budget bills only during the last few days of the legislative session. Amendments have not been entertained, so there have been no votes on specific spending choices, and debate has been limited. Most states practice budget transparency better than Oklahoma.

It's time we adjust our moral compass. Oklahoma has reached this point by choice — even if that choice was inaction by concerned citizens; Oklahomans can choose a path that leads to more robust shared services, paid for more fairly, through decisions made where we can all see and participate in them. This paper is designed for all residents, businesses, interest groups, public servants, elected officials, and candidates who seek to make our state better for all Oklahomans.<sup>1</sup> Our goal is to help all readers understand where we are, how we got here, and what tools can create a better path forward.

## Who needs government? All of us!



More than 19 in 20 Oklahoma children ages 5-18 are enrolled in **public schools**. That's 1 in 6 of all Oklahomans!



1 in 8 Oklahomans over age 65 depends on SoonerCare, Oklahoma's Medicaid program, for **health or long-term care**



7 in 10 **nursing facility beds** are paid for by SoonerCare



2 in 3 Oklahoma children receive their **medical care** through SoonerCare



1 in 5 Oklahomans depends on the Supplemental Nutrition Assistance Program (SNAP) to **have enough to eat**



4 in 5 Oklahomans over 16 have state-issued **driver's licenses**



1 in 1 Oklahomans relies on **public streets and roads**



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

During the last two decades, Oklahoma has dramatically reduced its investment in shared public services. As a result, we have made the choice to ration education, health, and safety based on personal income, not based on need. We have perpetuated and worsened the economic systems that inflict injustice on people of color, Indigenous persons, women, and LGBTQ+ or non-binary people. These decisions to underinvest have created a cascading impact of negative outcomes across the state, which has made it harder to recruit new businesses, support existing ones, and strengthen our economy.

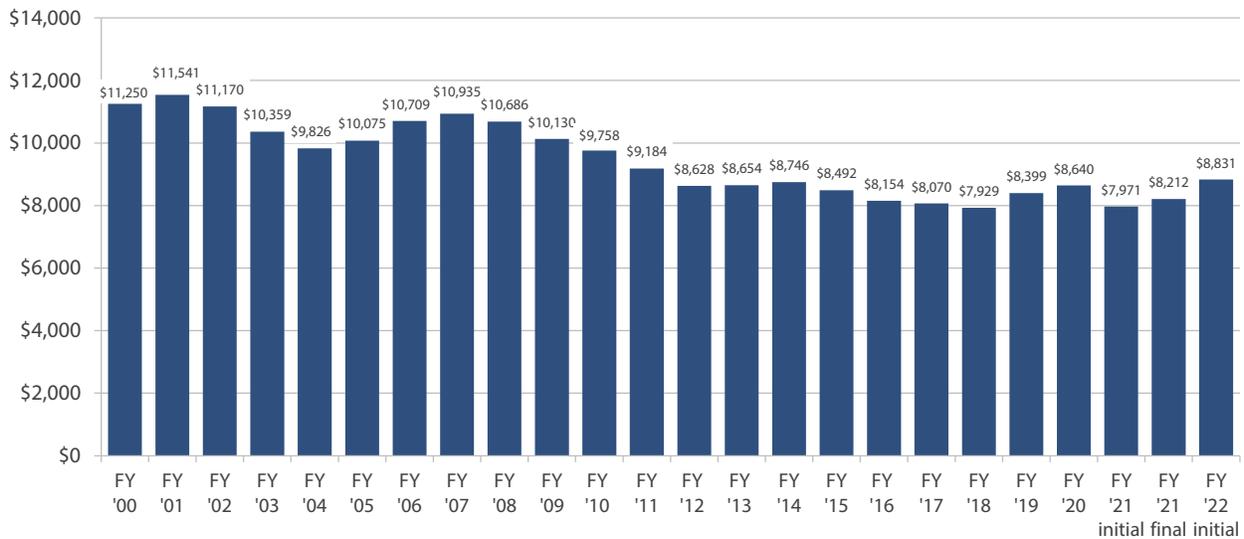
This section describes how Oklahoma's state budget has shrunk in the last two decades, damaging the state's ability to provide core services and compete with other states. It describes how lower tax rates for high-income individuals, corporations, and oil and gas producers have reduced state services 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. Oklahoma's shrinking budget is holding our state back from reaching its full potential.

Oklahoma’s state government has shrunk over the last two decades. The FY 2022 budget is 22 percent below FY 2000 budget when adjusted for inflation and population growth.<sup>2</sup> The budget is not all the money the state spends, but just the amount controlled and allocated by the legislature each year.

The shrinking budget means the state has lost nearly a quarter of its capacity to support essential services like public education, health care, social services, and infrastructure. Worse, Oklahoma’s volatile budget makes it difficult for our state agencies to consistently provide the services we all depend on. Since 2000, the state has faced 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 nearly the end of the budget year.<sup>3</sup>

Figure 1:

### Oklahoma's investment in state services is shrinking



Source: Oklahoma Policy Institute calculations from state appropriations bills, U.S. Department of Labor, and U.S. Census Bureau. Adjusted for inflation and population growth. See Data Documentation Tab 2.

## Why are we investing less in shared services?

Oklahoma’s leaders have reduced government through repeated tax cuts, increased tax subsidies, and overdependence on volatile oil and gas taxes for ongoing budgetary needs. In many cases, these changes result from a state government that keeps regular Oklahomans from monitoring and providing input on the decision-making process.

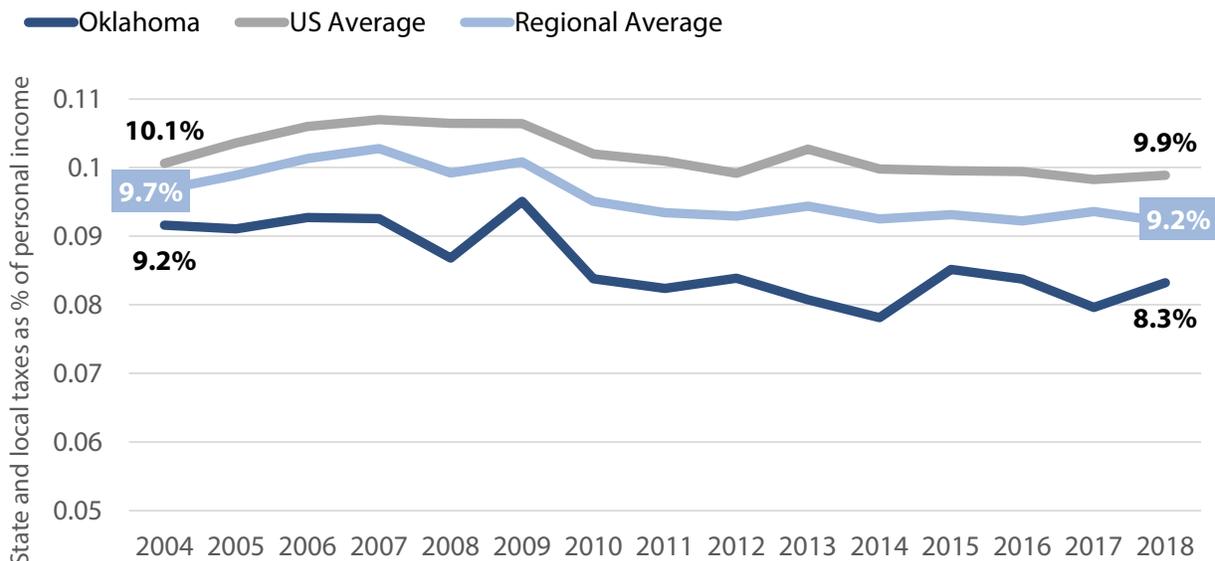
### Taxes have declined

The budget has become smaller because legislators and voters have cut tax rates, eliminated some taxes entirely, and increased tax credits, deductions, and exemptions. Figure 2 shows that these actions have made Oklahoma a low-tax state overall.

When comparing what Oklahomans pay in state and local taxes to the national average, Oklahomans pay less, and the gap between these figures has nearly doubled in that period. In 2004, Oklahomans paid \$9.20 of every \$100 they earned in state and local states, which declined to \$8.30 in 2018.

Figure 2:

### Oklahoma taxes have fallen dramatically



Source: Tax Policy Center. See Data Documentation Tab 3.

Even in our generally low-tax region, Oklahoma is a low-tax outlier. 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.

Had Oklahoma maintained its state and local taxes at the 2004 level, the state budget would have been \$2.1 billion higher in 2017 than it actually was.<sup>4</sup>

During the last two decades, Oklahoma lawmakers dramatically cut individual and corporate income taxes, along with the gross production tax on oil and gas. The top rate of the individual income tax was cut from seven to five percent between 2004 and 2016, costing the state more than \$1 billion each year after 2016.<sup>5</sup> Income taxes were also reduced on income of retirees and members of the armed forces, and the standard deduction, which shelters some earnings from income tax, was increased.<sup>6</sup> The rate will be lowered again to 4.75 percent in 2022 due to actions taken by the state legislature in 2021.<sup>7</sup>

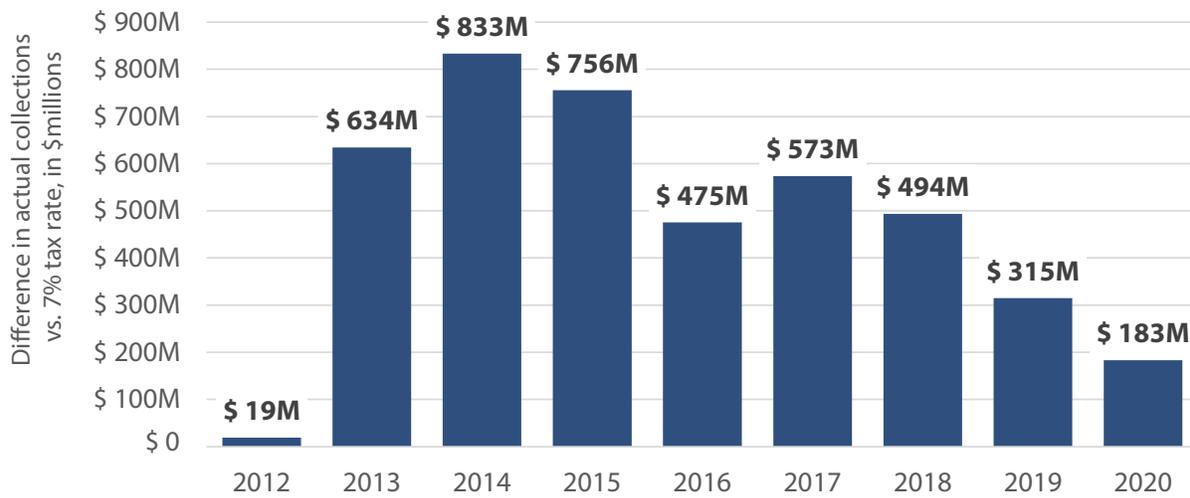
The corporate income tax rate will be cut from six to four percent in 2022 as well.<sup>8</sup> Corporations benefit greatly from state and local public services. Government educates the workforce, provides the infrastructure to move goods and services, and protects corporate property. The benefit of lower corporate taxes goes mainly to individuals with high incomes and high wealth because their wealth grows when corporate profits increase. In Oklahoma, virtually all corporate income tax is paid by individuals with incomes more than \$194,500. OK Policy's analysis of census data indicates that less than 10 percent of people in this group are Black, Latinx, or Indigenous. By restoring fair corporate income taxes, Oklahoma can reduce our racial wealth gap.<sup>9</sup>

Similarly, Figure 3 shows that special rates, exemptions, and credits to the gross production tax on oil and gas production reduced state revenue by a total of more than \$4 billion since 2012 and by as much as \$833 million in a single year. While most of the tax breaks on gross production are phasing out, the average actual tax paid in 2019 and 2020 was under six percent, still below the seven percent standard rate.<sup>10</sup>

State revenues were also reduced when the legislature phased out the estate tax beginning in 2000, creating an annual revenue loss of \$92 million.<sup>11</sup>

Figure 3:

## Gross production tax breaks cost the state \$4 billion in the last 9 years



Source: Region Track and OK Policy calculations from Oklahoma Tax Commission data. See Data Documentation Tab 4.

## Tax breaks and incentives have cut into revenue and reduce fairness

Tax expenditures — the credits, deductions, exemptions, and incentives that allow taxes not to be paid when they otherwise would have been<sup>12</sup> — significantly cut into Oklahoma’s annual revenue and our ability to fund services. For each dollar lost to a tax cut or incentive, one less dollar is spent on vital needs that benefit all citizens, such as health, education, and social services, or tax reductions for low-income Oklahomans.

Not all tax expenditures are bad.<sup>13</sup> Some support small businesses or put money back in the pockets of families. Others, like not charging sales taxes on items that will be resold, make good economic sense and keep taxes simpler and fairer. On the other hand, some benefit only small groups of people, wealthy individuals, or a few corporations; tax breaks like these, therefore, increase the tax burden on those least able to bear it, which perpetuates economic and racial inequality in the state in the process.

*“For each dollar lost to a tax cut or incentive, one less dollar is spent on vital needs that benefit all citizens, such as health, education, and social services, or tax reductions for low-income Oklahomans.”*

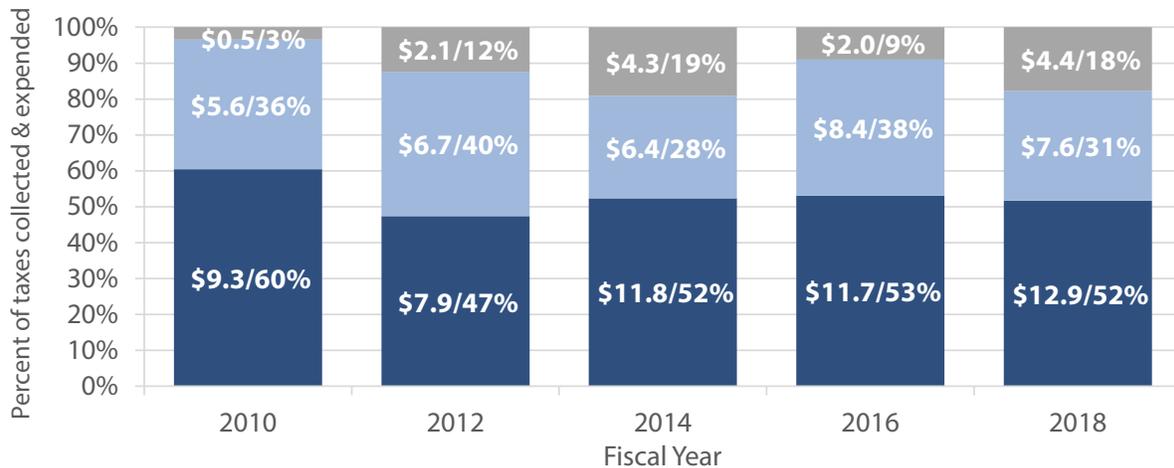
Some tax expenditures benefit the majority of taxpayers. The personal exemption and standard deduction to the individual income tax, which offset some of the basic costs of living, are each claimed by more than one million households. The homestead exemption from the property tax is available to every homeowner for the home they live in (but not for renters), and thus over 600,000 households receive it. Other broad tax expenditures like credits for sales tax relief, children and child care, and earned income are used by 300,000 to 400,000 Oklahomans.<sup>14</sup>

Others, however, are targeted towards specific industries, which seems counter to free market economies. In 2010, Oklahoma handed out \$500 million to targeted tax expenditures. These subsidies grew to \$4.4 billion in 2018, according to the biennial report from the Oklahoma Tax Commission.<sup>15</sup> Targeted tax expenditures give lawmakers the power to prioritize certain industries or individuals over others. In a free market, it should not be the government’s job to pick economic winners and losers or predict which industries will excel in the coming years. Further, this commitment to targeted expenditures keeps the state from objectively analyzing the cost-effectiveness of expenditures versus other shared services. In most cases, investing in public infrastructure, worker training, and public and higher education would provide a much higher return on the state’s investment.<sup>16</sup>

Figure 4:

## Just over half of taxes are collected after tax expenditures

■ Taxes Collected ■ Broad-based Tax Expenditures ■ Targeted Tax Expenditures  
 \$ amounts in billions



Source: Oklahoma Policy Institute calculations from Oklahoma Tax Commission Data. See Data Documentation Tab 5.

Broad-based tax expenditures include income tax credits claimed by more than 10 percent of returns and sales tax exemptions that likely affect more than 10 percent of Oklahomans (e.g., newspapers, residential utilities, water, sewer). All other expenditures are considered targeted.

In 2021, Oklahoma lawmakers dramatically expanded some of these targeted incentive programs, giving out more than \$100 million in tax breaks to just a few businesses and investors rather than addressing the state’s history of reducing public services. For example, a new film incentive will pay one-fifth to one-half of production costs for movies made in the state, at a cost of \$30 million per year for ten years. An expansion of income tax breaks for private school donors, most of whom have high incomes, will cost up to \$22 million annually. Sales tax rebates for broadband expansion will cost the state up to \$42 million per year. The broadband credit would not address broadband availability or affordability for consumers, rather it would lower provider costs for already-planned expansions. Lawmakers have also taken \$15 million out of budgets for core services to fund exposure to risky investments.<sup>17</sup>

## Tax expenditures are growing too quickly

As more companies claim tax incentives, tax expenditures are increasing faster than the total amount of tax collections, meaning the state is losing more crucial revenue each year. While state agencies must make a case for their budgets each year, lawmakers don't have a similar requirement for tax expenditures. As a result, many of these tax breaks continue indefinitely without being adjusted or eliminated.

Growth in a few specific tax expenditures is reducing state services. In 2020, almost three-fourths of all tax expenditures went to tax exemptions for resale items (\$6.1 billion) and sales to manufacturers (\$2.1 billion).<sup>18</sup> It is widely accepted that resale tax exemptions are effective and keep taxes from pyramiding on each other.<sup>19</sup> However, this revenue loss must be replaced in some way, as reductions in shared services may offset the potential benefits of any incentive.<sup>20</sup> The Oklahoma Tax Commission needs to retain economic experts to determine why estimated costs of these exemptions are growing faster than actual tax collections.

Similarly, some tax expenditures have grown quickly because of changes or significant expansions through legislative policy changes. For example, the tax credit for electricity generated by zero-emission facilities increased by \$87 million, or 5,790 percent, from 2008 to 2020, at least in part because of the change in credit rates.<sup>21</sup> Additionally, the private retirement benefit has grown as the Legislature eliminated income caps so that it can be claimed by any retiree regardless of their total income.<sup>22</sup>

Table 1:

## Tax expenditure costs are out of control

Credit	2006 amount	2020 amount	Change in expenditure
Electricity generated by zero-emission facilities - <i>income tax credit</i>	\$1,493,097 (2008, first year of credit)	\$88,028,000	<b>59x</b> bigger in 2020
Disabled veterans - <i>sales tax exemption</i>	\$1,642,000	\$45,451,000	<b>28x</b> bigger in 2020
Members of the armed services - <i>income tax exemption</i>	\$2,055,000	\$22,210,000	<b>11x</b> bigger in 2020
Child care - <i>income tax credit</i>	\$5,037,000	\$42,927,000	<b>8.5x</b> bigger in 2020
Private retirement benefits - <i>income tax exemption</i>	\$10,558,000	\$79,432,000	<b>7.5x</b> bigger in 2020

## Some tax expenditures benefit just a few companies

Some tax expenditures return significant state dollars to just a few taxpayers. For example, tax expenditures that incentivize the purchasing of Oklahoma-mined coal cost the state \$3.2 million in 2020 and only benefited ten tax filers.<sup>23</sup> Other exemptions are provided to investors with capital gains<sup>24</sup> (\$127 million for about 19,000 claimants) and to favored industries, including railroads<sup>25</sup> (eight claimants, costing \$543,000) and historic rehabilitation<sup>26</sup> (about \$2 million for 58 claimants). Income tax credits for zero-emission facilities benefitted only 49 people in 2020 but cost the state more than \$88 million.<sup>27</sup>

In contrast, three credits that are targeted towards low-income families cost just over \$90 million combined. The Earned Income Tax Credit, Sales Tax Relief Credit, and the Child Care tax credit all benefit more than 300,000 Oklahomans and provide vital assistance.<sup>28</sup> We can do more to support regular Oklahomans, particularly those struggling to get by, by reducing tax breaks for a few special interests and using the savings to strengthen supports for low-income families.

## State Question 640 makes it difficult to reverse course, but we've made some progress

State Question 640, approved by voters in 1992, requires tax increases to be approved either by a vote of the people or approval by 75 percent of both houses of the legislature. SQ 640 is among the most restrictive tax limits in the country. Only nine states have constitutional limits on tax increases and only one other state, Arkansas, requires a three-fourths majority of legislators to raise taxes.<sup>29</sup> Supermajority requirements have many negative effects, including giving legislative minorities disproportionate power, making it harder to raise taxes than lower them, and preventing the state from making wise public investments for economic growth.<sup>30</sup>

SQ 640 has made it extremely difficult — but not impossible — to increase taxes. Voters approved tax increases on charity games, tobacco, and medical marijuana and created a lottery.<sup>31</sup> The legislature in 2018 approved significant tax increases by meeting the 75 percent requirement. By approving more than one-half billion dollars in new revenues, the legislature reversed some cuts in the state income tax and the gross production tax.<sup>32</sup> Their decisive action helped arrest the state's long revenue decline and set the stage for two years of revenue growth. Unfortunately, the legislature reversed course in the 2021 legislative session by cutting both the corporate and income taxes, which will cost the state \$110 million and \$237 million annually, respectively. These cuts will be difficult to reverse and will have long-lasting impacts on the state's ability to provide vital services.

## Cutting the public out of decisions leads to inadequate services and tax giveaways

The decisions made in the last 20 years have reduced essential public services and shifted taxes from the wealthy to those who are struggling, and too often these decisions have been made out of the public eye.

Government transparency is essential because it creates accountability, improves integrity, includes more citizens in making decisions, builds trust, and leads to better fiscal outcomes, according to the Organization for Economic Development and Cooperation (OECD).<sup>33</sup> Transparency is democratic; if residents can stay informed and participate in the process, our governments' choices will better reflect both our values and our priorities. Most importantly, transparency is an antidote to corruption.<sup>34</sup>

Fiscal transparency includes several elements. Budget documents and data should be open, transparent, and accessible. They should provide a comprehensive, accurate, and reliable picture of public finances. If residents and their elected leaders can't see where all the money comes from and where it goes, budgets can't reflect our priorities. Budgets should identify and manage long-term risks and sustainability. The budget process should be inclusive, participatory, and accessible.<sup>35</sup>

When overlaying these basic requirements of transparency, Oklahoma consistently falls short. For example:

- Most state budgets include funds from all sources (i.e., federal grants, state taxes, fees collected by state agencies, etc.). Oklahoma's budget excludes billions of state tax dollars that are legally reserved for special uses, all federal funds, and nearly all of the state's non-tax revenue from tuition, tolls, fines, and fees.
- Budgets are determined by our elected legislators. However, these budget decisions are made by a small number of senior legislators and their staff — outside of public view and without public participation. While Oklahoma's legislative session is nearly four months long, the process of publicly debating the state budget usually takes a week or less during the waning days of the session. Our legislature does not hold public hearings on the budget, historically has not considered amendments, and has few public, recorded votes on the budget. This is in stark contrast to many states, who determine their budgets with public input and in public view, allowing voters to hold legislators accountable based on their votes for specific budget decisions and their commitment to our essential shared services.

## Tax cuts and smaller budgets aren't helping Oklahomans or the economy

A smaller state budget hurts everyone because it slows economic growth. State and local spending stimulates economic growth and creates jobs, and using the additional revenues to pay for more public services enhances economic growth and expands employment.<sup>36</sup>

Cutting state government spending by a dollar cuts economic output by \$1.50 to \$2.50, according to Kitty Richards and Nobel Prize-winning economist Joseph E. Stiglitz. Raising taxes by a dollar, particularly on high income people, reduces output by just 35 cents.<sup>37</sup> This contention is backed up by decades of research. In fact, during a recession, "if a state wants to minimize job loss, the best course of action is to increase taxes on the top 10 percent of the income distribution."<sup>38</sup> Income taxes in Oklahoma have been steadily decreasing, thus slowing down our economy.<sup>39</sup>

Rural economies in particular suffer the worst from smaller government. Many of these areas struggle to maintain their populations, and too many cannot keep working-age adults employed. Our taxes help our small communities and their residents and businesses survive and even thrive by funding good-paying, stable jobs. Public employees and contractors are essential economic drivers in small communities; by reducing taxes and shrinking government, we are not serving the needs of rural Oklahomans.

Many Oklahomans probably believe that lower taxes and smaller government help the economy. We hear arguments like that often from elected officials, business leaders, national conservative advocates, and even some economists.

Oklahoma's results do not support that theory; lower taxes and low budget growth aren't turning us into an economic powerhouse. Figure 5 shows that, since the tax cuts described above started, Oklahoma's state and local taxes as a share of personal income have fallen more (12.0 percent, adjusted for inflation) than our neighbors' (4.7 percent), or the national average (3.7 percent). Similarly, our state and local spending as a share of personal income has declined slightly, while spending has increased modestly in our region and across the country.<sup>40</sup>

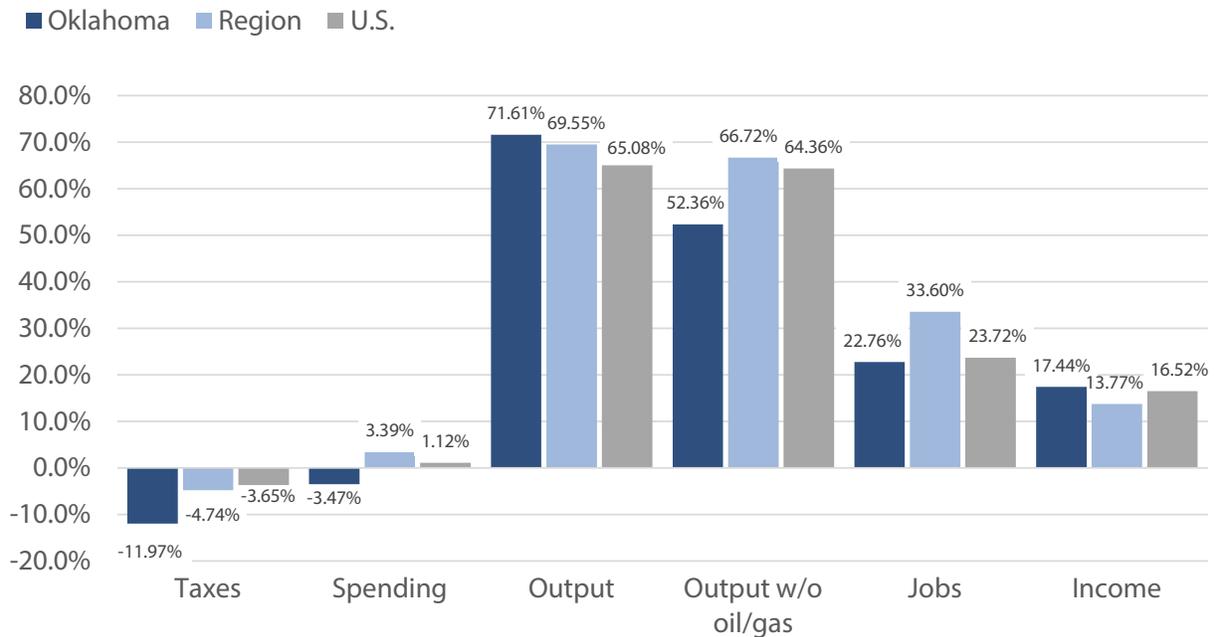
Oklahoma's total economic output has grown significantly, and the growth since tax cuts started has exceeded both the regional and national averages since tax and spending reductions started. However, the small differences, particularly within our region, suggest that tax cuts are not the economic driver that they are claimed to be. In fact, our total output has been driven not by lower taxes and smaller government, but by a shift of oil and gas production into our state and region. Our growth is the result of fracking and

other innovations in the oil and gas industry, not tax cuts. When looking at all economic output *except* for oil and gas extraction, Oklahoma’s economy has grown comparatively slowly (52 percent, adjusted for inflation) since 1997, less than our region’s 67 percent growth and national growth of 64 percent (all excluding oil and gas production).

Tax and spending cuts are not helping regular Oklahomans. Our job growth is lower than the national average and well under the rest of our region, in spite of our continued tax and spending cuts. Our state’s median income growth (half of Oklahomans make more, half less) is somewhat above the regional and national averages. However, our state median household income continues to be below the national and regional averages. In fact, while our ranking among neighboring states fell in taxes (from fourth to sixth of seven) and in state and local spending (from fourth to fifth), Oklahoma ranks fifth of seven in economic output, jobs, and household income, the same as in 1997. Tax and spending cuts simply haven’t given Oklahomans the economic boost they were promised.

Figure 5:

## Lower taxes and spending aren't boosting our economy



Source: OK Policy calculations from US Bureau of the Census, Bureau of Labor Statistics, and Bureau of Economic Analysis. See Data Documentation Tab 7

While lower taxes and underspending have not helped our economy, they have definitely hurt our development as a state. A review of just a few state statistics and rankings suggests that reducing the state budget has worsened Oklahoma as a place to live, work, and conduct business.

In education, Oklahoma's educational outcomes have worsened by virtually every measure during the last decade. While Oklahoma was once a national leader in early childhood education, only 40 percent of three- and four-year-olds are enrolled in preschool.<sup>41</sup> Our school ranking on the multi-measure Education Week Quality Counts indicator has fallen from 26th in 2009 to 50th (of 51) in 2020.<sup>42</sup> As drastic cuts to higher education have shifted the burden of paying for education after high school from the state to students and their families, we have fallen farther behind the rest of our nation in educational attainment, a key driver of economic competitiveness and income growth. In 2000, 20.4 percent of Oklahomans had bachelor's degrees or higher, four percentage points below the national average. By 2015-19, our degree rate had climbed to 25.4 percent but was over six percentage points below the national average.<sup>43</sup>

In health, Oklahomans rank among the worst states in insurance coverage (50th, above only Texas, though this ranking will improve as a result of Medicaid expansion in 2021), in accidental deaths (61.6 percent, well over the national average of 52.7) (particularly those involving motor vehicles or alcohol), in smoking (22.6 percent of adults, compared to the national median of 17.7 percent), and we rank 42nd in overall health of children.<sup>44</sup>

*While lower taxes and underspending have not helped our economy, they have definitely hurt our development as a state.*

Oklahomans' quality of life is worsening due to under-investment in shared services as well. We rank in the bottom ten states for overall environmental quality and in the bottom third in access to broadband.<sup>45</sup>

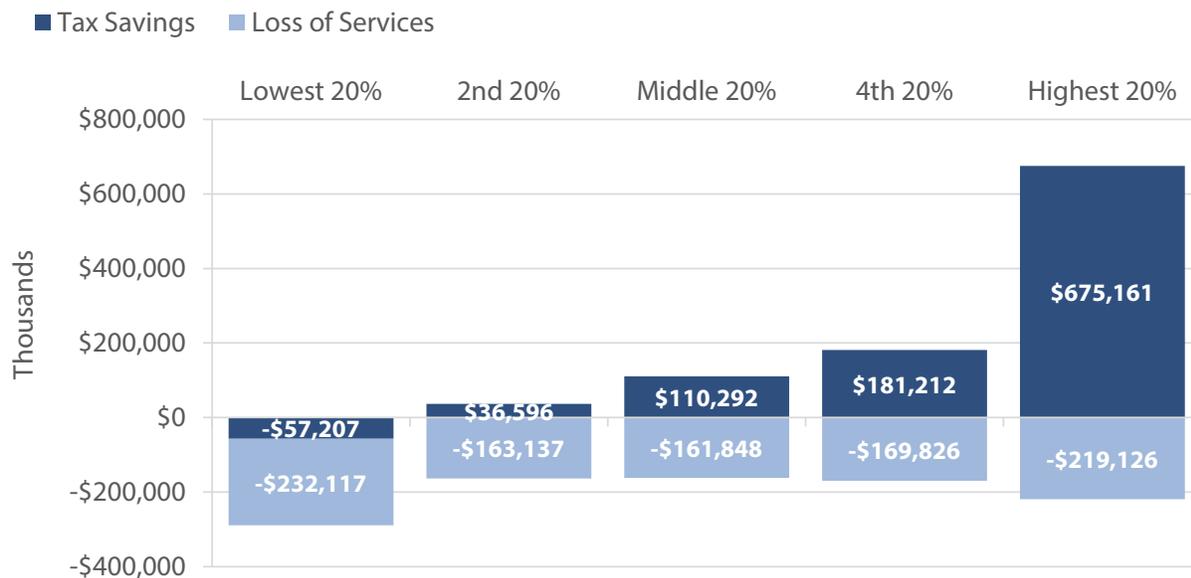
Rather than fueling economic growth, a smaller government has damaged our economy by making Oklahoma less attractive to businesses. Oklahoma business leaders know that without increased investments in public goods like roads, public education (Pre-K-12 and post-secondary), and public health, the state will continue to struggle to recruit new business and will miss out on the subsequent economic impacts.<sup>46</sup>

Tax and budget cuts are not felt equally by all Oklahomans. Dr. Kent Olson, Professor Emeritus of Economics at Oklahoma State University, estimates that Oklahoma’s fiscal policy has shifted income to the 40 percent of the most well-off Oklahomans from the remaining 60 percent. Tax cuts mainly benefitted the highest income Oklahomans, while spending cuts hurt their lowest-income neighbors the most. The bottom 20 percent by income are the only group that has faced higher taxes in this period, and they also have been hurt most by service cuts. Less access to health care and education hurts future well-being, earning capacity, and prospects for those who grow up poor and near-poor. Higher taxes on low-income workers make it that much harder to climb out of the trap of poverty.

The top 20 percent, on the other hand, received more than half of the benefit of tax cuts — nearly \$700 million in total — during this period. Because income remains closely tied to race and location, our state tax and budget cuts have hit persons of color much harder than their white neighbors, and rural Oklahomans more than urban ones.<sup>47</sup>

Figure 6:

## Tax cuts benefited a few while budget cuts hurt everyone



Source: Kent Olson, Professor Emeritus, Oklahoma State University.  
See Data Documentation Tab 8.

Over time, we have also shifted funding for courts and many other public safety functions from state taxes to fees charged to those involved with the justice system. While we may not have intended this outcome, we have turned our courts and law enforcement agencies into instruments that criminalize poverty. Many Oklahoma district court fees have more than doubled since 1992, and a simple \$35 speeding ticket comes with 15 separate fees totaling \$230. Often these fees are more heavily carried by poor citizens and communities of color; they become a trap for low-income households and a drain on the neighborhoods where they live, particularly in rural areas. This dramatic increase in fees hasn't helped our courts, as collections have been flat for more than a decade, but the fees still undercut the legitimacy of our courts.<sup>48</sup>

Similarly, lower budgets for our higher education institutions increasingly have shifted the costs of education to students and their families. The budget for higher education has fallen by 22 percent from 2009 to 2021, while tuition has increased by 35 percent for residents and 47 percent for non-residents in the same period.<sup>49</sup> Tuition increases hurt our state by reducing enrollment (which lowers education attainment in the state and reduces income) and increasing student debt (which limits other economic expenditures, including purchasing a home). These effects are felt most acutely by students of color, likely worsening the racial wealth gap.

After decades of reducing revenue, Oklahoma has yet to see the benefits that were promised. The state's shrinking budget has hampered our ability to compete in our region in areas like economic and income growth, and it has disproportionately impacted low- and middle-income earners. Without reconsideration of our approach, these trends will continue.

## Conclusion

This section shows how Oklahoma has stepped back from a commitment to shared services and a more equitable prosperity. We have reduced taxes, forcing cuts in state services that hurt our economy and our well-being. To reverse these trends, we must protect and restore state services, and we must expect greater contributions from those who can afford them. Oklahoma has many options for making taxes sufficient to support the core state services on which we all depend. In doing so, we will move toward recapturing and reinforcing the sense of community that made our state a great place to live.



## Section 2: Oklahoma's tax system is regressive and unfair

This section describes how Oklahoma's tax structure requires low- and middle-class taxpayers to pay a higher portion of their income than wealthier Oklahomans; it addresses the ways that tax policy benefits homeowners, senior citizens with built-up wealth, and some big corporations instead of the small businesses and families who need the assistance most. 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.<sup>50</sup> The state must continue providing and expanding shared services that are often lifelines for low-income individuals, but this revenue to support these services should not be generated through taxes that place too much burden on those unable to bear it. State tax policy is not the sole cause of — nor the sole solution to — Oklahoma's entrenched racial disparities, but the state can use tax policy to begin mitigating those disparities.

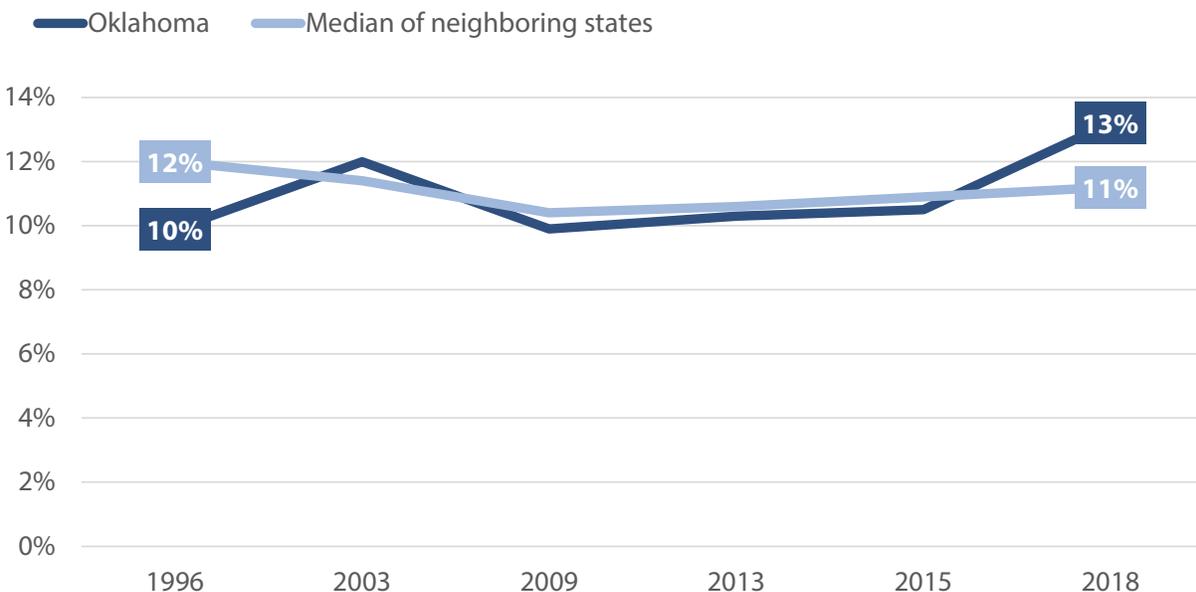
## Oklahoma is not a low-tax state for everyone

Oklahoma is the fifth-highest tax state for low-income earners.<sup>51</sup> In 2018, the difference between states in our region was stark. A family making \$12,000 in Oklahoma paid \$535 more in taxes than the same family in Colorado.<sup>52</sup> For the Oklahoma family, that means \$10 less per week, a meaningful amount for families surviving on less than \$231 per week *before taxes*.

Four in 10 Oklahomans don't have the resources or savings for an unexpected emergency and some 15 percent of Oklahomans lived in poverty before the COVID-19 pandemic,<sup>53</sup> but the state relies on these taxpayers for a significant portion of revenue. During the last 25 years, Oklahoma has increased taxes on low-income earners while neighboring states have reduced them.<sup>54</sup>

Figure 7:

### Taxes have risen for low-income Oklahomans, while they have fallen in surrounding states

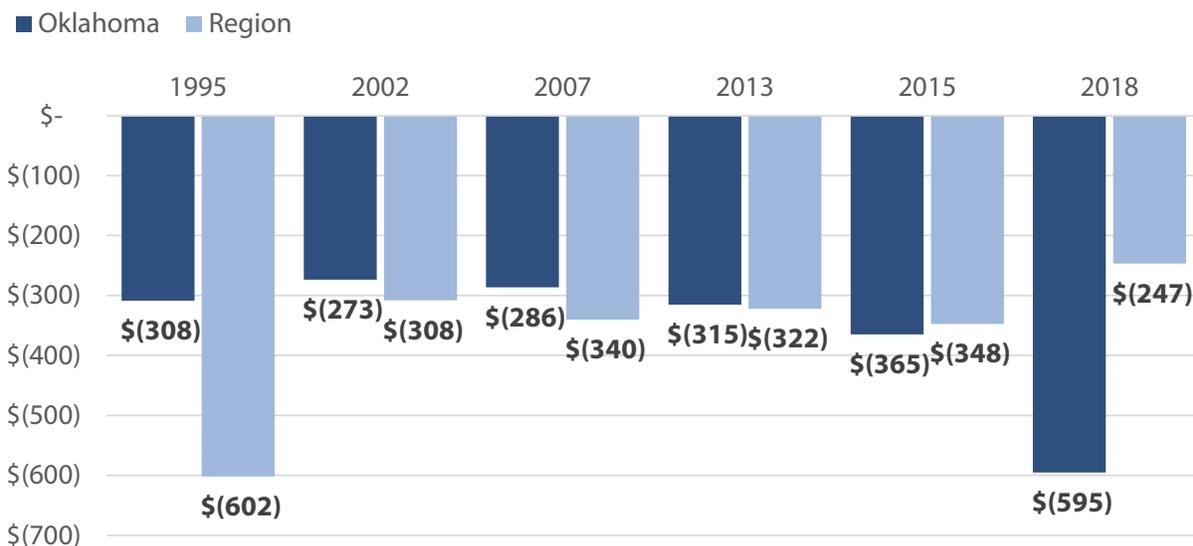


Source: Institute on Tax and Economic Policy. See Data Documentation Tab 10.

Low-income Oklahomans are also paying a higher portion of their income in taxes than those with high income. While the lowest 20 percent of earners pay 13.2 percent of their income in taxes, the top 20 percent (making \$89,100 or more) pays just 8.2 percent.<sup>55</sup> Figure 8 shows how low-income Oklahomans would benefit if our tax system were proportional instead of regressive. If earners in the bottom 20 percent paid the same percentage of their income in taxes as those in the top 20 percent, they would have paid \$595 less than they did in 2018. This dollar amount has consistently risen in Oklahoma during the last two decades, with a particular jump in the last five years, as the tax burden has been shifted to low-income Oklahomans. Surrounding states, meanwhile, have shifted the taxes the other direction, making them less regressive. A low-income Oklahoma family is \$349 worse off each year than the average of a similarly situated family in neighboring states.<sup>56</sup>

Figure 8:

## What if the lowest 20% paid the same as the highest 20%?



Source: OK Policy calculations from Institute on Taxation and Economic Policy. See Data Documentation Tab 11.

When low-income households face higher tax rates than those who are better off, the tax structure is called “regressive.” The opposite, when low-income taxpayers have lower rates, is called “progressive.” When everyone pays the same share of their income, it’s called “*proportional*.”

Several tax changes since 2000 have combined to make taxes lower at the top of the income scale and higher for those who are less well off. These include:

- lowering the top income tax rate ten times over the last 22 years, from 7 to 4.75 percent,
- increasing income and property tax exemptions for retirees, veterans, and military members,
- expanding sales tax exemptions for certain sales and organizations,
- eliminating the estate tax,
- cigarette tax increases, and
- increasing local sales taxes.<sup>57</sup>

There have been a few important steps in making taxes more progressive, including ending the ability to deduct federal taxes and limiting many other itemized deductions to the income tax, but these have not made up for the regressive actions.

*When low-income households face higher tax rates than those who are better off, the tax structure is called “**regressive**.”*

*The opposite, when low-income taxpayers have lower rates, is called “**progressive**,” and when everyone pays the same share of their income, it’s called “**proportional**.”*

## What if we had a proportional tax system?

Most Oklahomans probably would agree that a proportional tax is fairer than a regressive one. Here's how a proportional tax system would change taxes for the lowest and highest income Oklahomans.<sup>58</sup>

Table 2:

### A proportional tax system would expect more from those who can afford it

Income group	Lowest 20%	Highest 1%
Average income	\$12,000/yr.	\$1,135,000/yr.
Current tax	\$1,584 (13.2% of income)	\$70,388 (6.2% of income)
Proportional tax	\$1,275 (10.6% of income)	\$120,660 (10.6% of income)
Impact of fair taxes	\$309 savings	\$50,271 increase

## Tax policies are not race neutral

Tax policies that cause low- and middle-class taxpayers to contribute a larger share of their income also disproportionately harm Oklahomans of color. While most low- and middle-class Oklahomans are white, people of color are more likely to live in poverty, disproportionately represented in lower income brackets, and more likely on average to pay a higher percentage of their income in taxes; generations of policies and practices have created these inequities and made it difficult for people of color to build wealth.<sup>59</sup> These harmful historical policies include being kept from the lawmaking process, systematically funneling children of color into lower-quality schools, denying basic services,<sup>60</sup> discriminatory housing practices such as redlining, heavy reliance on sales tax, and caps on property taxes.<sup>61</sup> Centuries of marginalization have led to measurable outcomes today: the median net worth of white households is ten times higher than that of Black households and eight times higher than Latinx households.

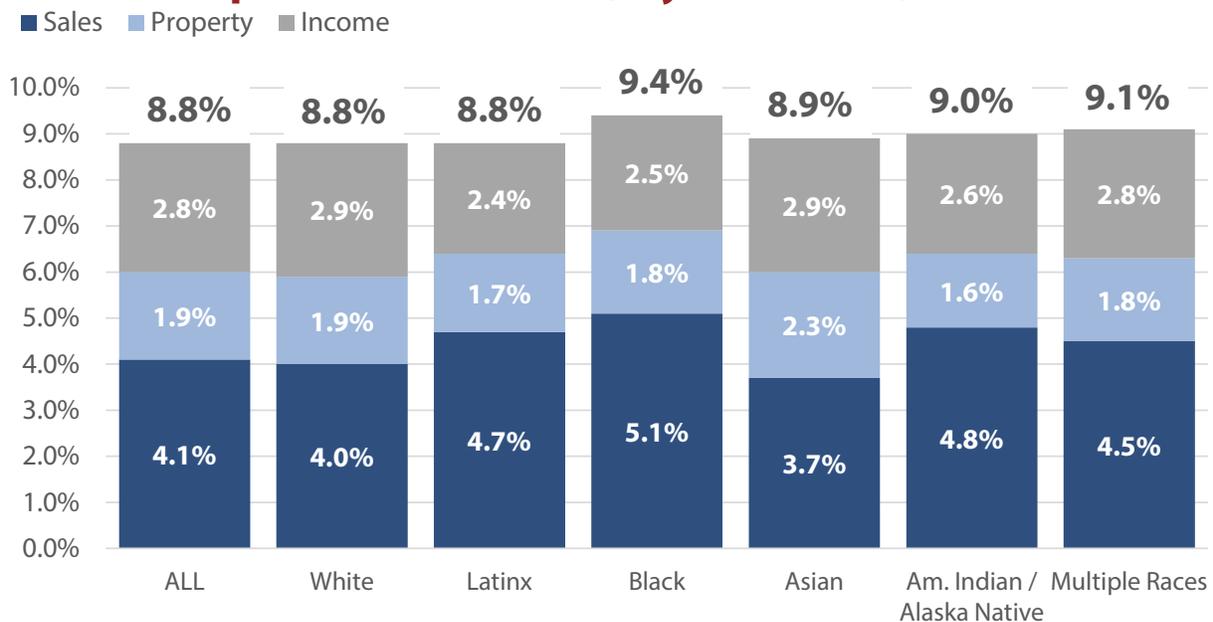
Oklahoma's tax system perpetuates these racial gaps because it favors those with higher incomes and wealth. Oklahoma's low-income families pay the highest share of their income in state and local taxes, and those families are more likely to be families of color.<sup>62</sup> As a result, our tax system takes a bigger bite of the pretax earnings of Black, American Indian, and Hispanic families than it does of white ones.

This regressivity is driven by many policies. One example is our reliance on sales taxes, which are inherently regressive because they require low- and middle-income taxpayers to pay a larger share of their income in sales taxes than those with higher incomes would for the same product.<sup>63</sup> The tax system’s preference for homeowners also contributes to racial inequity, as white people are more likely to own their homes while Black, American Indian, and Latinx households are more likely to be “extremely low-income renters.”<sup>64</sup> Black people who own their homes also face tax discrimination, as their houses are often undervalued in comparison to white-owned homes but overvalued at tax time.<sup>65</sup> Finally, beneficiaries of the charitable giving deduction are more likely to be white, despite the fact that Black and white households contribute roughly the same share of their income to charitable causes.<sup>66</sup>

On average, Black Oklahomans pay 9.4 percent of their income in taxes, while white Oklahomans pay only 8.7 percent. Most of the difference is because of the sales tax.<sup>67</sup>

Figure 9:

### Taxes as a percent of income, by race & tax, 2018

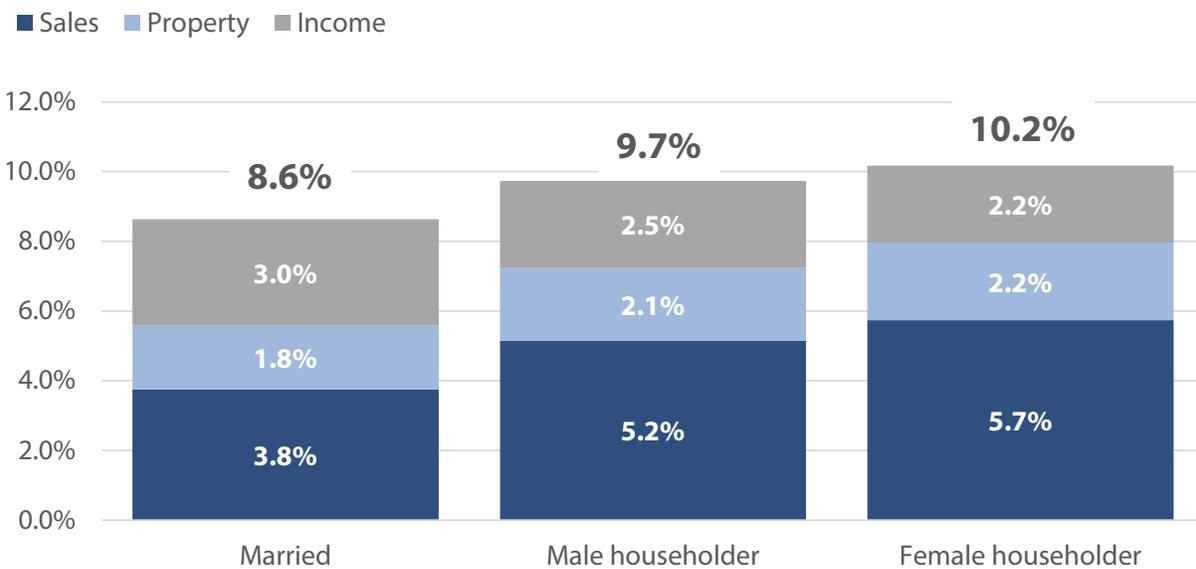


Source: Institute on Taxation and Economic Policy. Note that races exclude persons of Hispanic origin and the Latinx category includes multiple races. Includes only householders under age 65. Totals may not add due to rounding. See Data Documentation Tab 14.

The tax system impacts women in a similar way, as they continue to be overrepresented in low-wage jobs and unwilling participants in the gender pay gap.<sup>68</sup> Women who are heads of household pay 10.2 percent of their income in taxes, higher than the amount paid by male householders (9.7 percent) and married couples (8.6 percent).<sup>69</sup> This is even more harmful for women of color and non-binary and trans people.<sup>70</sup>

Figure 10:

## Single Oklahomans, especially women, pay a higher share of Oklahoma taxes

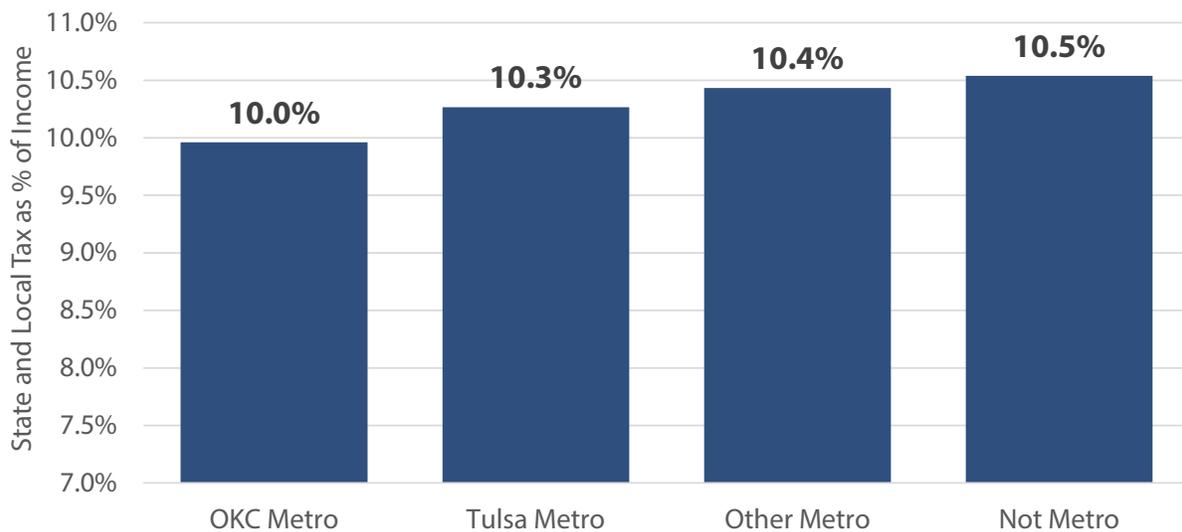


Source: OK Policy calculations from U.S. Census Bureau and the Institute for Taxation and Economic Policy. Totals may not add due to rounding. See Data Documentation Tab 15.

Because rural Oklahomans tend to have lower incomes than urban ones, regressive taxes mean rural households pay a larger share of their income in state and local taxes. The average Oklahoma taxpayer outside a metropolitan area pays 10.5 percent of their income in taxes, while the average urban taxpayer pays 10.2 percent. Taxpayers in metropolitan Oklahoma City pay just 10 percent. Differences are slightly greater among white households, with whites in the Oklahoma City area paying 9.9 percent of their income in taxes, compared to rural whites, paying an average of 10.5 percent of income.

Figure 11:

## Rural Oklahomans pay more of their income in taxes



Source: OK Policy calculations from U.S. Census Bureau and the Institute for Taxation and Economic Policy. See Data Documentation Tab 16.

Tax policy impacts communities differently. Whether or not this was intentional, Oklahomans are impacted daily by the choices of our legislators who create these policies. Without reform, regressive tax policies will continue to disproportionately impact Oklahomans of color, female and non-binary people, and rural residents.

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## Oklahoma's taxes should promote equal justice

Equal justice within our tax policy means that those with a similar ability to pay are treated equally by the tax system, also known as “horizontal equity”.<sup>71</sup> In Oklahoma, those with similar ability to pay can have significantly different tax payments. Tax expenditures often favor specific groups (like seniors, veterans, individuals with disabilities, nonprofit associations) or specific activities (such as purchasing a home, manufacturing airplanes, creating certain kinds of jobs, or drilling certain kinds of wells).

Certain tax policies manifest in ways that don't immediately suggest bias but still favor some groups over others. For example, homeowners qualify for a homestead exemption from some property taxes, and they may be able to deduct mortgage interest from their state income tax. There are no similar breaks for renters, despite the fact that renters pay property tax as a portion of their rent.<sup>72</sup> In some states (Michigan,<sup>73</sup> Minnesota,<sup>74</sup> New Jersey,<sup>75</sup> and Wisconsin<sup>76</sup>), renters and homeowners can both claim property tax exemptions and are therefore treated more fairly.

Tax expenditures and incentives also create different taxes for taxpayers with the same ability to pay. Exemptions for retirement income can mean well-off seniors can have as much as \$80,000 in tax-free income, while younger and often less wealthy taxpayers pay taxes on the first dollar of their earnings. Further, universal exemptions that benefit all seniors, like Oklahoma's tax exemption for all social security benefits, provide the greatest benefit to those with the most retirement income, leaving low-income retirees to pay a higher percentage of their income in taxes. Incentives for businesses are rarely neutral. We provide better tax breaks for manufacturers than other businesses. We subsidize filmmaking but not music production or visual arts. Some investments are fully taxable while others are tax-exempt. We exempt income from taxation for aeronautical engineers but not civil engineers. Nearly every incentive favors new businesses over existing ones.

## Conclusion

This section shows that Oklahoma's tax structure is unjust. It disproportionately harms low-income earners, people of color, women, and rural Oklahomans. It gives more tax breaks to those with high wealth and income. Shifting the tax burden away from those with the fewest resources and investing in the common good will make it easier for low- and middle-income Oklahomans to support their families and secure their futures. Just as tax policies of the past have been used to reinforce racial disparity, our future tax policy can be restructured in a way that promotes equity.



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

Oklahoma and our country are struggling with the economic damage from COVID-19, and recovery will be long. The Congressional Budget Office (CBO) estimates that unemployment will not return to pre-pandemic levels for at least two years and that natural gas prices will not recover before 2031, a decade from now.<sup>77</sup> Even before the 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 by Dr. Kent Olson, Professor Emeritus of Economics at Oklahoma State University, show that even after nearly a billion dollars in tax increases in 2016-18, this gap will reach \$1.1 billion annually by 2030.<sup>78</sup>

The state simply cannot afford more deterioration in its basic services. If we try to close the fiscal gap by proportional spending cuts alone, by 2030, we will be cutting more than \$400 million from education, nearly \$200 million from SoonerCare, more than \$100 million more each from higher education and the Department of Human Services, and more than \$200 million from the rest of the budget, according to Dr. Olson.<sup>79</sup>

Budget cuts to services take much-needed money out of the economy. A dollar is used differently depending on who is holding it. The state budget supports services and salaries across Oklahoma and largely benefits low- and middle-income households who tend to spend most or all of their earnings. Higher-income households rarely spend all of their income; when they do spend, it is often on services or goods from out of state. Cuts to state services also disproportionately impact low-income communities and communities of color.<sup>80</sup>

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

Oklahoma can reverse the course on tax cuts of the last two decades. This can generate essential revenue and make taxes fairer, while still leaving taxes for all Oklahomans well below the levels in most other states. Options to do so are discussed below.

**Increase income tax rates for the highest earners.** In 2004 Oklahoma's top income tax rate was seven percent.<sup>81</sup> The top rate is now five percent and will fall to 4.75 percent in 2022.<sup>82</sup> A couple making \$100,000 per year will save \$1,985 (35 percent) on state taxes each year because of this cut. In the same time period, this couple saved nearly \$7,000 from federal income tax cuts since 2004.<sup>83</sup>

Adjusting the state income tax rate to six percent for top earners (\$300,000 in taxable income for joint filers; \$150,000 for single earners) would raise \$134 million in new revenue and affect only two percent of Oklahomans. Alternatively, a new 5.5 percent tax rate for income above \$150,000 for joint filers (\$75,000 for singles) would increase taxes for just eight percent of Oklahomans and generate \$143 million in new revenue to support state services.<sup>84</sup>

**Reinstate the estate tax to raise much-needed revenue from the wealthiest Oklahomans.** Estate taxes typically apply to less than three percent of estates, or only those owned by the wealthiest individuals.<sup>85</sup> Oklahoma lawmakers repealed our estate tax in 2010. Reinstating these taxes would make the state tax structure less regressive and could help the state respond to the pandemic and recession. A typical estate tax exempts the first \$2 million to \$5 million, with tax rates ranging from one to 16 percent. Oklahoma could generate between \$40 million and \$180 million in new revenue, depending on how much value is exempted and the tax rate.<sup>86</sup> Repealing the estate tax largely benefitted wealthy white heirs. Whites are three times as likely to inherit any money than Blacks and four times as likely

as Latinx. Reinstating the estate tax can make the tax code more equitable and provide revenue for essential public services.<sup>87</sup> In doing so, the state can consider exempting family-owned farms. Some farms have substantial value but lack cash to pay taxes.

**Eliminate itemized deductions.** Some taxpayers itemize deductions for expenses like property taxes, mortgage interest, medical costs, and charitable contributions. Itemized deductions disproportionately favor white taxpayers and make racial wealth differences larger.<sup>88</sup> If Oklahoma's itemized deductions were eliminated, state revenue would increase by \$165 million per year. The change would mean eight percent of taxpayers would pay higher taxes; of those, 88 percent earn more than \$95,000 annually.<sup>89</sup> A bipartisan law in 2018 limited itemized deductions except for charitable contributions and medical expenses to a total of \$17,000, generating \$94 million in revenue.<sup>90</sup>

With state income taxes so low (with a maximum rate of 4.75 percent, a \$1,000 gift to charity saves \$47.50 in taxes), it is unlikely that ending these deductions would change people's home-buying or charitable giving. If the state wished to encourage charitable giving as a cultural good, it could replace the deduction with a credit of, say, \$50 per year for any taxpayer regardless of income, not just those with high incomes. Such a credit would open up a tax benefit for charity to all taxpayers.

**Target retiree benefits towards low-income seniors.** Focusing tax benefits towards low-income seniors would ensure the exemptions benefit those who most need the help. When these exemptions were introduced, 1 in 4 seniors were living in poverty. However, poverty among seniors is at an all-time low, at less than 1 in 10. Oklahoma's exemption on retirement income cost the state an estimated nine percent, or \$310 million, of income tax collections in 2017.<sup>91</sup> Since 1 in 5 Americans will be over the age of 65 by 2030, these tax breaks will continue to consume more state revenue if left unchecked.<sup>92</sup>

Oklahoma could emulate other states by extending the Social Security exemption only to those making less than a certain amount annually or only exempting a portion of income,<sup>93</sup> or we could model it after the federal exemption and only levy taxes on those with incomes above \$25,000 individually or \$32,000 jointly. This would generate \$129 million in state revenue, and only nine percent of taxpayers would see a tax increase, averaging \$730 per tax filer.

Alternatively, the state could generate about \$113 million — and reduce the impact on retirees in the bottom 60 percent even further — by ending the exemption for those with total incomes over \$75,000, similar to Kansas and Missouri.<sup>94</sup>



### **Eliminate the tax deduction for contributions to the Oklahoma 529**

**College Savings Plan.** This deduction costs the state \$3.7 million annually.<sup>95</sup>

Nearly all the benefit goes to families making more than \$100,000, most of whom are simply using this mechanism to reduce taxes on money they would have saved anyway.<sup>96</sup> Whites are overrepresented in higher income brackets and therefore disproportionately benefit from this credit. The tax break for relatively few Oklahoma families (14,282) would be better spent directly funding higher education to benefit all students.<sup>97</sup>

**Repeal or reconfigure the Capital Gains Deduction.** This deduction allows certain gains to be fully deductible from a taxpayer's state taxable income. The program's goal is to incentivize capital investment, but claims show no evidence that capital investment is increasing in Oklahoma. This credit overwhelmingly benefits those making more than \$200,000 annually, all for a significant net cost to the state. The credit created just 515 total jobs in 2014 and cost the state \$127 million in 2020.<sup>98</sup> That means the rest of us are paying nearly one quarter million dollars per job created by this program. While repealing the deduction would save the state the most money, good alternatives would include limiting the deduction to the farming industry, only small businesses, or at a certain income. This would likely cut costs while targeting the credit towards those who it may actually help.

**Restore the corporate income tax to six percent.** Oklahoma receives a smaller share of income taxes from corporations (and thus a larger share from people) than most of our neighbors and the national average. In 2018, 6.3 percent of Oklahoma income taxes were paid by corporations, which was less than all but one surrounding state, and it was well below the national average of 10.3 percent.<sup>99</sup> In 2021, the legislature took a step in the wrong direction by reducing the corporate tax rate from six to four percent of Oklahoma-generated profits. This change will benefit shareholders and well-paid executives at the expense of essential public goods like schools and infrastructure.<sup>100</sup>

**Enact combined corporate reporting.** As corporations have become more sophisticated and their operations more global, they have found ways to protect profits from state taxes by setting up subsidiaries to hold the profits. Combined reporting, already adopted by 25 states, requires corporations to report on profits of the entire group, including all subsidiaries. Combined reporting is generally expected to raise corporate income tax revenue by 10-25 percent, or \$50 million to \$125 million per year in Oklahoma.<sup>101</sup>

**Establish a corporate minimum tax.** A \$250 annual minimum tax should apply not just to the large “C corporations” but the S corporations and limited liability corporations that pass their income through to owners, who then pay the individual income tax on the profits. Ten states have minimum corporate taxes, averaging \$257.<sup>102</sup> To protect inactive and very small businesses, this minimum should apply only to those with \$100,000 or more gross income in Oklahoma. No revenue estimate is possible from publicly available data.

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

Oklahoma's sales tax is one of the two largest sources of funds for state government, and it represents the largest source for cities and many counties. Expanding the sales tax base and eliminating exemptions will also provide badly needed revenue to counties and cities. Below are some options for increasing revenue from sales tax without hurting low- and middle-income taxpayers. Expanding the sales tax base and eliminating exemptions will also provide badly needed revenue to counties and cities.

**Apply the sales tax to more services, particularly those used by upper-income residents.** Sales taxes generally tax goods but not services. Services are now the largest part of our economy, representing 64 percent of Oklahomans' spending.<sup>103</sup> Yet Oklahoma taxes just 33 of 176 services tracked by the Federation of Tax Administrators, compared to the median state that taxes 61.<sup>104</sup> Oklahoma should explore taxing the services most commonly taxed by other states, which include (in order from most to least common) long-term auto leases; aircraft rentals; professional sports tickets; and downloaded software, movies, and books.<sup>105</sup>

**Apply the tax to streaming services and digital downloads to increase fairness and revenue.** Oklahomans pay sales tax when they buy vinyl records or movie tickets. Those who stream or download media do not. Over time, it is likely that media will continue to shift from physical to virtual. OK Policy estimates that taxing streaming services and digital downloads in the current market would generate at least \$20 million each year in state sales tax and a similar amount of tax for cities and counties.<sup>106</sup>

**Eliminate sales tax breaks that favor specific industries.** Two of Oklahoma's most costly sales tax exemptions are sales of newspapers (both digital and online) and residential utilities (including gas, electricity, water, sewer, and refuse). Ending these exemptions sales would produce \$155 million annually in revenue supporting state and local services. According to the Institute on Taxation and Economic Policy (ITEP), the bottom 20 percent of Oklahoma residents would see a tax increase of \$30 per year, while the top 20 percent would pay \$90 or more per year. The exemption for the purchase of advertising cost the state \$50 million in 2020. The state could save at least \$16 million more by eliminating smaller sales tax exemptions that favor specific industries and nonprofits.<sup>107</sup>

**Eliminate the sales tax holiday.** Each August, Oklahoma gives taxpayers \$7 million one weekend a year for back-to-school shopping to purchase items they would have purchased regardless. Just 16 states still offer this exemption. These politically motivated holidays help favored businesses; they do not promote economic growth or increase spending, and they do not make the sales tax any less regressive, according to the Tax Foundation. The legislature should end this tax expenditure and invest these recaptured savings back in our public schools.<sup>108</sup>

**Index all dollar-denominated taxes to increase with inflation.** A large amount of Oklahoma taxes and fees — about \$1.3 billion annually — are fixed dollar amounts rather than a percentage. That means revenue does not grow with inflation, while the cost of public services does. If Oklahoma indexed taxes and fees on fuels, cigarettes, alcohol, and vehicle registration to inflation, the state would have an additional \$25 million each year to fund the roads, health programs, and schools supported by these taxes and fees. While these taxes are regressive, the \$5 annual increase on the lowest 20 percent of taxpayers could easily be counteracted by other recommendations in this report.<sup>109</sup>

## Enact structural changes to expand and diversify the revenue base

**Repeal or modify SQ 640.** State Question 640 requires either a three-quarters majority vote in the legislature on any revenue raising measures or a simple majority vote followed by a state ballot measure. This high threshold makes it too difficult to raise taxes while simultaneously it places no limits on cutting them. As noted previously, the legislature has only raised revenue once in 30 years in response to 2018's education protests. Voters have approved tax increases through state questions on charity games, tobacco, medical marijuana, and the creation of a state lottery. The legislature should submit a state question repealing SQ 640 outright to the voters. If repeal fails, alternatives can be offered at later elections, such as:

- limiting SQ 640 only to large tax increases (say, more than five percent increases in a single legislative session),
- reducing the required supermajority legislative vote requirement from 75 to 60 percent of both houses,
- applying SQ 640 equally to tax reductions, including expansion of tax expenditures, or
- requiring a 60 percent vote of the people to add new tax expenditures to the constitution instead of the current simple majority.

**Protect the future of core public services.** Oklahoma levies gross production, or severance taxes, on oil, gas, and other natural products taken from land or water. Lawmakers can protect revenue for core public services by shifting unpredictable severance tax revenue away from the General Revenue Fund (GRF) and other core services to the greatest extent possible. The gross production tax on petroleum is the most volatile of Oklahoma's major tax sources. Its contribution to state revenue has varied from more than 14 percent to less than four percent in the last decade. In FY 2020, Oklahoma collected \$829 million in gross production taxes, mainly for the GRF and for schools.<sup>110</sup> The state should stabilize its budget and protect core services by using the gross production tax for state retirement funds, bond payments, the Rebuild Oklahoma Access and Driver Safety (ROADS) fund, and the County Improvement Roads and Bridges Fund, all of which can withstand uneven revenue collections. This simple structural change would dramatically reduce the number and intensity of revenue failures that have too often resulted in unexpected reductions in state services during downturns in petroleum prices, just when those services are needed most.

**Explore the possibility of creating an interstate compact against corporate tax incentives.** This mutual agreement with some or all of our surrounding states would keep states from using corporate tax incentives to poach companies across state lines,<sup>111</sup> and it would protect the state's budget from future attempts to expand current or create new incentive programs. Kansas and Missouri recently reached a similar agreement, after realizing the states had lost hundreds of millions to ineffective incentives.<sup>112</sup> Of Oklahoma's surrounding states, Arkansas' tax system is likely the most similar and presents an opportunity to explore this option.

**Increase accessibility of Oklahoma's Volunteer Income Tax Assistance (VITA) program.**<sup>113</sup> This VITA program helps provide qualified tax preparation for low- and middle-income residents. Expanding access would help low- and middle-income Oklahomans access all credits to which they are entitled. OK Policy estimates that 30,000 Oklahoma families use VITA, while more than a million state households have incomes of less than \$50,000. By more effectively leveraging social media and outreach, Oklahoma could extend this service to more people.<sup>114</sup>

**Fund courts with state tax revenue and eliminate fees and fines.** As long as their funding depends on unpaid debt, our courts will never be fully funded and justice will not be served. Reversing these fee increases and restoring agency funding through appropriation would be a laudable first step towards a fully-functioning court system.<sup>115</sup>

**Reform all tax incentives to improve impacts, fairness, and transparency.**

Reforming tax incentives can help limit our costs now and keep future costs manageable. It is important for Oklahoma to limit incentive programs and to make them more consistent and transparent by:

- Requiring companies that receive incentives to report annually the amount they receive, the jobs they support, and their spending in the state.
- Limiting each company or project to one incentive program instead of allowing them to combine incentives.
- Limiting payments to no more than three years.
- Sunsetting incentive programs every five years.
- Capping all incentives and reducing the cap automatically during revenue shortfalls.

## Make our tax system fair for all

Tax fairness must be balanced with revenue adequacy. It would be counterproductive if efforts to make the tax system fairer worsened the fiscal gap. Raising taxes for the Oklahomans most able to pay is fair, anti-racist, and the best economic policy for the state. Tax fairness should be part of an overall tax plan that provides adequate public services, while creating a tax system that treats all Oklahomans fairly. The following options would help increase tax fairness.

**Expand Oklahoma's Earned Income Tax Credit (EITC).** This tax credit incentivizes work, is a proven poverty-fighting tool, leads to healthier families, and helps low-income workers pay for basic needs.<sup>116</sup> The state legislature made the credit non-refundable in 2016, costing low-income working families an average of \$121 each year.<sup>117</sup> Lawmakers restored refundability of the state's EITC during the 2021 session but decoupled the state credit from the federal credit. This ensures the state credit will lose value each year as costs of living increase while the rate stays stationary. The current rate of the state credit is five percent of the federal credit, putting Oklahoma in the bottom five states with the lowest credit amounts.<sup>118</sup> The state should maintain refundability, re-tie the EITC to the federal EITC, and increase the value of the state credit to ten percent of the federal credit, which would cost \$45 million and provide a tax cut for 19 percent of taxpayers. The credit should also be simplified and made easier to claim.<sup>119</sup>

**Increase and improve the Sales Tax Relief Credit (STRC).** This tax credit can be strengthened by expanding the credit's amount and income limit,<sup>120</sup> indexing it to inflation, and eliminating the need for a separate form. One reason Oklahoma's taxes are so unfair is that we are one of few states that levies the full sales tax on groceries. Oklahomans with incomes below \$22,000 pay \$1 out of every \$250 they earn on this tax alone, compared to \$1 out of every \$1,000 for those making over \$95,000. To achieve a fairer tax system, the state should ultimately make groceries tax-free but only as part of comprehensive reform that raises income and property taxes so that state and local services that depend on the sales tax can be preserved and strengthened.

The STRC was created to ease the cost of sales tax on groceries by returning \$40 per household member to the elderly, individuals with disabilities, anyone who makes less than \$20,000 annually, and those who make less than \$50,000 and claim dependents. The credit amount hasn't been updated since 1992 and has since lost 35 percent of its buying power; the eligibility limit hasn't been raised since 1998. Oklahoma should ease the impact of taxing groceries by doubling the STRC to \$80 and/or increasing the income limits while phasing out the credit as income grows. This would cost the state between \$14 million and \$73 million. Between 56 and 72 percent of the tax benefit would go to the bottom 40 percent of earners. By indexing the credit to inflation, legislators would ensure that the credit will maintain its buying power.<sup>121</sup>

The credit also needs to be simplified and easier to claim. The Oklahoma Tax Commission should be directed to pay the credit automatically, as it has sufficient information on existing tax returns to calculate it.

**Expand the low-income property tax credit<sup>122</sup> to all homeowners and renters making less than \$12,000 annually.** This credit is only available to senior and disabled homeowners who make less than \$12,000 annually. The credit is capped at \$200. The cost of this expansion is approximately \$23 million.<sup>123</sup>

**Create a renter credit for the income tax equal to the value of the homestead exemption.** The average homeowner receiving the homestead exemption saved \$109 in property taxes in 2018. Rental property owners pay property taxes too, and they include the cost of taxes in rents. Low-income renters struggle at least as much as low-income homeowners and should be treated the same by our tax system. Providing renters the same savings through a \$110 refundable credit against the state income tax would cost approximately \$55 million.<sup>124</sup>

## Incentives are the wrong choice for using our shared revenues

Tax incentives are a special class of tax expenditures targeted toward general or specific “economic development” projects by providing tax exemptions, deductions, or credits in direct exchange for expected future spending in the state. Incentives put the government in an inappropriate role: picking economic winners and losers. That’s the job of the private sector in a capitalist economy, and the government should not be putting its finger on the scale.

Incentives deserve intense scrutiny by taxpayers. They are available mainly to those with the means and incentive to lobby elected officials for specific benefits. Once granted, future incentive payments cannot be cancelled to help fund higher priorities; they don’t need to be re-approved annually.<sup>125</sup> Incentives can make taxes lower for new, larger, and more profitable businesses than for established and often smaller businesses.<sup>126</sup> They mostly employ people moving into the state rather than Oklahomans. As a result, incentives do not necessarily lead to more jobs for Oklahomans and they may require local governments to spend more on schools, roads, and public safety.<sup>127</sup>

The bottom line: Tax incentives simply don’t work as intended. Studies of incentives universally find that incentives play a small part in the location decision. Estimates of the highest possible impact of incentives in business location decisions range from 2 to 33 percent.<sup>128</sup> Only 3 of 32 peer-reviewed academic studies found positive community impacts from incentives.<sup>129</sup> Incentives create opportunity costs, as states have to give up something (either higher taxes or lower services) to fund them.

*The bottom line: Tax incentives simply don’t work as intended.*

Oklahoma has often prioritized tax incentives over strengthening our shared services. Here are just a few examples of how we could invest in Oklahomans if we cut back on tax incentives:

Table 3:

## Tax incentives are budgetary choices

With this money	We could:	But we've chosen to:
\$161 million/year (Limit or repeal the five-year Ad Valorem Tax Exemption for Manufacturing)	Raise teacher pay 6%, making Oklahoma the 2nd-highest paying in our region	Pay 5 years of corporations' property taxes for new factories through the Ad Valorem Reimbursement Fund
\$127 million/year (Repeal or reconfigure the Capital Gains Deduction)	Repave an additional 260 miles of state highway every year	Let fewer than 20,000 taxpayers deduct their capital gains from state income taxes
\$88 million/year (Shorten the lifespan of the Tax Credit for Zero-Emission Facilities)	Increase the state earned income tax credit for 300,000 taxpayers from 5 to 15% of the federal credit	Provide tax credits for less than 50 companies for zero-emission electricity facilities.
\$30 million/year (End tax funding for the film industry)	Build more than 2,200 miles of high-speed broadband so rural Oklahomans can stream programming, do their school work, and run their businesses	Pay up to one-third of the production costs for Oklahoma-made films and television shows
\$25 million/year (Repeal the Oklahoma Equal Opportunity Education Scholarship Act)	Hire 1,000 more public school teachers	Provide \$5,600 tax-free to donors for private school scholarships
\$300 million over 5 years	Replace more than 900 structurally deficient county bridges (more than one-third of the remaining deficient bridges)	Provide tax subsidies to an automaker, at a reported cost of \$150,000 per job.
See Data Documentation Tab 29		

Several specific incentives are candidates for repeal or limitation to make funds available for services that benefit the education, health, and safety of all Oklahomans rather than serving a few private interests.<sup>130</sup>

**Limit or repeal the five-year Ad Valorem Tax Exemption for**

**Manufacturing.** Using the Oklahoma Tax Commission's 2020 report on this incentive and media reports, OK Policy found that 42 percent of payments went to just five businesses that created only 1,300 total jobs.<sup>131</sup> The state legislature created Oklahoma's Incentive Evaluation Commission (IEC) in 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The IEC's 2020 report on this incentive noted that its cost doubled from 2016 to 2019 but that employment in the industries it targets is *less* than in 2001. It recommended narrowing the program to target high-paying industries, requiring companies to maintain employment levels for all five years they receive the incentive, and making the program as transparent as those in neighboring states. In addition, the state should consider limiting the ad valorem exemption program only to what is required by the Oklahoma Constitution and submitting to voters a ballot question to repeal the program (saving \$161 million annually).<sup>132</sup>

**Shorten the lifespan of the Tax Credit for Zero-Emission Facilities.** Under current statute, no new credits for zero-emission facilities can be awarded after 2021, but current contracts will continue for ten more years, leaving the state with an annual obligation of tens of millions of dollars. The IEC determined that, due to the increasing growth of the sector, the risk to the state is greater than the potential benefits of the credit.<sup>133</sup> The legislature could end the credits sooner by directing the state to buy back the credits at a discount. This could give a fair return to those holding on to credits while reducing the long-term fiscal burden on the state.

**Reconfigure the Investment/New Jobs Tax Credit to more adequately meet the program goals.** This credit is intended to incentivize investment and/or job creation, but as of 2015, \$557.4 million existed in unused carried forward credits, leaving the state with a high financial risk. Further, the salary requirement for new jobs is less than half the annual salary of a minimum-wage worker, which is only incentivizing very low-wage jobs, according to the IEC. The Commission recommended awarding credits only in the year of the new investment or job creation, reducing the credit amount from five to four percent of capital investment and \$2,500 to \$2,000 per new job, and capping the time period for carrying credits forward to between three and 14 years. These changes could save the state \$39 million annually without impacting recipients.<sup>134</sup>

**End tax funding for the film industry.** Nationally, film incentives are universally found to be a poor investment, costing more than \$100,000 per job for the few permanent jobs that are created, according to the Tax Foundation.<sup>135</sup> That's certainly the case in Oklahoma, where the IEC found that \$27 million in film rebates had increased permanent in-state production company employment by just 145 in 15 years. The IEC further calculated that the industry returned only 52 cents in Oklahoma tax dollars for every dollar spent.<sup>136</sup> Despite these poor returns, the legislature in 2020 doubled the annual cap on film credits to \$8 million, exempted some films from that cap, and extended the sunset date.<sup>137</sup> In 2021, lawmakers created a new film incentive that will reduce state revenue by \$30 million annually for ten years for rebates to filmmakers.<sup>138</sup>

**Repeal the Oklahoma Equal Opportunity Education Scholarship Act.**

This program provides tax credits to individuals or corporations that make donations that primarily benefit private schools. This expenditure previously was capped at \$5 million annually, but the cap was made more widely available and increased to \$21.5 million, and the subsidy made more widely available in 2021.<sup>139</sup> While supporters claim the credit provides low-income students the opportunity to attend private schools, it is unclear if this is happening. The average credit for the 2019-2020 school year was just \$2,800 — just half the \$5,700 average tuition cost for private schools — , and the average income of families receiving the credit in 2020 was more than \$66,000 annually.<sup>140</sup> It is more likely that the state is simply subsidizing donations that would have been made without the incentive. Further, families earning more than \$200,000 annually can actually profit off of the state government by claiming this state tax credit and deducting the contribution from both federal and state income taxes. Instead of providing partial scholarships that may allow a few low-income students to attend private school, Oklahoma should fully invest in the future of all students by supporting public education.<sup>141</sup>



## Section 4: Conclusion

Oklahoma has made bad fiscal choices in the last two decades. We have cut the shared public services we all need. We have reduced taxes out of proportion when compared to our neighbors and our fellow Americans. We have asked those who can pay more to pay less while expecting the exact opposite of those who can afford the least.

In making these choices, we have not only increased inequality, we've reduced the quality of life for all Oklahomans. We've hurt our school children, our uninsured neighbors, our seniors, and our disabled population. We've widened the racial, gender, age, and geographic divides we inherited. We've stunted our economy and made our state less attractive and profitable as a place to do business.

We do not have to continue making the choices that have failed us. We can expect more from those who have benefitted from overly generous tax cuts. We can make taxes fairer for everyone. We can reverse the tax expenditures and incentives that have forced us to cut essential services while also wrongly putting government in the business of picking economic winners and losers. 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.

Oklahomans believe in individual freedom and responsibility. But we have too long sat quietly while leaders have made decisions that hurt us, our families, and our neighbors. We are nationally known for our ability and willingness to help each other in times of need. This is one of those times. We can and we must band together to make the investments in ourselves, our children and grandchildren, our neighbors and communities, and our state. And we have to start now.

## Appendix: Overview of options for Oklahoma's fiscal future

Oklahoma can thrive for years to come if the state takes action now to ensure sufficient funding for state services and make our tax structure fairer and more productive. The following options would allow Oklahoma to meet immediate and long-term financial needs.

Estimates of impacts on taxpayers and state revenue are based on the most current data. Please see Section 3 for details on each option.

Table 4:

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

Option	Number affected	Revenue increase / decrease in \$million
Add a new six percent income tax rate for incomes more than \$150,000 for single filers and \$300,000 for joint filers	2%	+\$134
Add a new 5.5 percent tax rate for incomes more than \$75,000 for single filers and \$150,000 for joint filers	8% (with <sup>2/3</sup> coming from the top 1%)	+\$143
Reinstate the estate tax	<1,500 <sup>142</sup>	+\$40-180
Eliminate itemized deductions	8%	+\$165
Limit Social Security to the federal exemption	9%	+\$129
Exempt Social Security from income tax entirely for those making less than \$75,000-\$85,000 for single taxpayers	6%	+\$113
Eliminate deduction for contributions to the College Savings (529) Plan	14,282	+\$4
Repeal or narrow the Capital Gains Deduction	19,078	+\$127
Restore the corporate income tax to 6 percent	Corporations	+\$110
Require combined corporate reporting	Corporations	+\$50-125
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	Corporations	Unknown

Table 5:

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

Option	Number affected	Revenue increase / decrease in \$million
Apply the sales tax to more services, particularly those used by upper-income residents (examples: long-term auto leases, aircraft rentals, professional sports tickets)	Most taxpayers	Unknown
Apply the sales tax to streaming services and other digital downloads	Unknown	+\$20
Eliminate exemptions for special purposes (such as newspapers sales, utilities, advertising, purchases by rural electric co-ops, and sales to churches)	Most Oklahomans, with the largest share going to the upper half of incomes	+\$230
Eliminate the annual sales tax holiday	Unknown	+\$7
Index all dollar-denominated taxes to increase with inflation	All taxpayers	+\$25

Table 6:

## Enact structural changes to expand and diversify the revenue base

Option	Impact
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)	Provide an easier path to raising revenue and protecting shared services
Shift unpredictable severance tax revenue away from the General Revenue Fund and towards more long-term funding needs	Reduce the volatility of the state's revenue stream
Explore creation of an interstate compact against corporate tax incentives	Protect and expand the revenue base
Increase accessibility of Oklahoma's Volunteer Income Tax Assistance program	Ensure all Oklahomans can access tax credits to which they are entitled
Eliminate fees and fines and fund courts with state revenue	Increase functionality of court system, reduce Oklahoma's prison and jail population, increase equity in our communities
Reform all tax incentives to help limit current and future costs (details listed in Section 3)	Protect and expand the revenue base

Table 7:

## Make our tax system fair for all

Option	Number affected	Revenue increase / decrease in \$million
Increase the value of the state Earned Income Tax Credit to 10% of the federal credit and re-tie state credit to federal credit	19 percent	-\$45
Sales Tax Relief Credit - increase credit to \$80	Taxpayers making less than \$50,000	-\$37
Sales Tax Relief Credit - increase credit to \$120	Taxpayers making less than \$50,000	-\$73
Sales Tax Relief Credit - maintain \$40 credit and increase income limit*	Majority would benefit those making less than \$61,000	-\$14
Sales Tax Relief Credit - increase credit to \$80 and increase income limit*	Majority would benefit those making less than \$61,000	-\$64
Expand the low-income property tax credit to all homeowners and renters making less than \$12,000 annually	Approx. 120,000	-\$23
Create a new renter credit equal to the value of the homestead exemption (\$110)	500,000+ families who rent their homes	-\$55

\*Income thresholds would increase to \$40,000 / \$70,000 (for those who claim a dependent, are elderly or disabled) and include a phaseout between \$20,000-\$40,000 / \$50,000-\$70,000

Table 8:

## Incentives are the wrong choice for using our shared revenues

Option	Number affected	Revenue increase / decrease in \$million
Repeal or limit the five-year Ad Valorem Tax Exemption for Manufacturing	57	Up to \$161
Buy back Tax Credits for Zero-Emission Facilities at a discounted rate	49	Unknown
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	921	+\$39
Repeal the Film Enhancement Rebate Program	17 productions	+\$30
Repeal the Oklahoma Equal Opportunity Education Scholarship Act	2,756	+\$25

# Figures and Tables

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## Endnotes

- 1 In the interest of transparency and other interpretations of data, we share our calculations and data sources in a companion document. Watch throughout this report for footnotes with links to the appropriate calculations for all charts and many of the other figures. Link to calculations and sources: See Data Documentation Tab 1
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- 142 Because Oklahoma does not collect an estate tax, there are no records of the number and value of estates. This estimate is based on Oregon, a state of similar population to Oklahoma but higher levels of income and wealth. In 2017, 1,481 estates were subject to the estate tax. Data are available at <https://olis.oregonlegislature.gov/liz/2020R1/Downloads/CommitteeMeetingDocument/216516#page=3>



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