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OKLAHOMA'S REVENUE OPTIONS FOR THE BUDGET EMERGENCY

Oklahoma is grappling with a \$1.3 billion shortfall for next year's budget. Without new revenue to close the shortfall, state agencies and school districts face massive budget cuts that will be disastrous for Oklahoma families, businesses, and communities. We must do something to minimize budget cuts that would do irreparable harm to the building blocks of a healthy, safe, and prosperous state. While Governor Fallin and members of the Legislature have offered various ideas for recurring revenues to balance the budget, no comprehensive plan has yet emerged. Here is a broad menu of revenue options that are worth considering as part of a fair and sustainable budget:

Recurring Revenue Options

- **Suspend the 2016 income tax cut.** Beginning in January of this year, Oklahoma lowered the top income tax rate from 5.25 to 5 percent. The tax cut was triggered by a poorly drafted law that caused it to take effect amid a revenue failure and historic budget shortfalls. Repealing or delaying the quarter-percent cut would largely affect only already wealthy households. [REVENUE: \$147M]
- **Assess a high-income surcharge.** Oklahoma has cut the income tax by over \$1 billion since 2004, with a large majority of the benefit going to the highest-income households. Oklahoma could assess a surcharge of 6 percent on income over \$200,000 (\$100,000 for single individuals) and 7 percent on income over \$400,000 (\$200,000 for singles). The surcharge could be made temporary until revenues rebounded to prior year levels. [REVENUE: \$162M]
- **End the double deduction for state income tax.** Oklahoma is one of very few states to allow taxpayers who claim itemized deductions on their federal tax return to also claim the deduction for state income taxes on their state tax return. This deduction primarily benefits high-income households and serves no rational policy purpose. Ending the double deduction was part of Governor Fallin's FY 17 budget proposal. [REVENUE: \$87M]
- **Increase the cigarette tax.** Governor Fallin has proposed a \$1.50 per pack increase in the cigarette tax. Revenue from this tax could be dedicated specifically for funding health care services. The Oklahoma Health Care Authority's plan to limit provider rate cuts and stabilize the Medicaid program counts on new cigarette tax revenues. [REVENUE: \$181.6M]
- **Increase the fuel tax.** Oklahoma has among the lowest fuel taxes in the nation at 17 cents per gallon, and it has not been adjusted since 1987. Since that time the fuel tax has lost nearly half its value to inflation. A higher fuel tax could be pegged to lower gas prices and serve to offset the loss in gross production taxes that Oklahoma experiences during times of low oil and gas prices. [REVENUE: \$135M for 5¢ increase of gasoline and diesel tax]
- **Improve collection of Internet sales taxes.** States are hampered from collecting taxes on sales from retailers that lack a physical presence in their state. The Legislature is considering a proposal (HB 2531) that aims to allow Oklahoma to collect more tax on Internet sales by adopting a broader definition of who maintains a place of business in the state. The Tax Commission has been unable to provide a revenue estimate for the bill, but the amount of increased revenue is likely to be modest. [REVENUE: Unknown]
- **Sales tax modernization.** Governor Fallin's FY 2017 budget included \$200 million in new revenue from "sales tax modernization," which includes eliminating sales tax exemptions, taxing currently untaxed services, and applying sales tax to taxable items that are downloaded. The Governor did not specify which services should be taxed or which exemptions should be eliminated. [REVENUE: Unknown]

- **Adopt combined corporate reporting.** Some multi-state corporations shift income to out-of-state subsidiaries to escape state tax liability. Most states with a corporate income tax have adopted a reform known as combined corporate reporting that effectively halts this tax avoidance strategy and ensures that multi-state corporations pay their fair share of taxes, just like local businesses. [REVENUE: Unknown]
- **Reduce tax breaks for gross production.** Oklahoma traditionally has taxed oil and gas production at 7 percent with various exception rates. In 2014, the Legislature voted to extend the tax break to almost all production at 2 percent for 36 months, which is a level well below other energy-producing states. The gross production tax rate could be raised to 4 percent when prices are low and to up to 7 percent when prices are higher. This could produce roughly \$25 million in FY 2017 but would increase over time. The Legislature could also eliminate or defer payment on the tax rebate for economically unprofitable wells, which is expected to cost the state \$158 million in FY 2017. [REVENUE: \$25M to \$183M]
- **Curb subsidies for wind producers.** Oklahoma currently provides various tax breaks for wind production, including a zero-emission tax credit that provides 0.5 cents per kWh of generated wind. Even if the credit is ended, the state would have continued liability for credits accrued in prior years, but payments could be deferred during the budget emergency. [REVENUE: Up to \$123M]
- **Tax on wind energy production.** Oklahoma does not currently tax wind energy production. If wind were taxed at the same current rate as oil and gas production – 2 percent for the first 36 months and 7 percent thereafter – it could generate \$74 million, according to the coalition that is campaigning to end wind subsidies. [REVENUE: \$74M]
- **Transfer agency revolving funds.** Governor Fallin’s budget calls for formalizing annual transfers of “excess” balances from agency revolving funds to be available for appropriation elsewhere. This proposal is being carried in HB 3058. [REVENUE: \$125M]

One-time Revenue Options

- **Tap the Rainy Day Fund.** Of the \$309 million in the Rainy Day Fund, \$145 million can be tapped for the FY 2017 budget with a simple majority vote of the Legislature. Another \$97 million can be used upon declaration of an emergency, which requires either a 2/3rd vote of both legislative chambers if the Governor declares an emergency or a 3/4ths legislative vote without the Governor’s consent. Depleting the Fund this year would make it harder to deal with the 2018 budget if the current downturn continues. [REVENUE: up to \$242M]
- **Defer increases to ROADS Fund:** The ROADS Fund for highway and bridge maintenance is slated for an automatic \$59.7 million increase in FY 2017, bringing its total to \$536.2 million annually. The Legislature could defer that increase, which would lead to some maintenance and repair projects being delayed. [REVENUE: \$59.7M]
- **Issue bonds for transportation projects:** Rather than appropriate tax revenues to the Department of Transportation, the Legislature could issue bonds to pay for transportation projects. DOT is expected to receive some \$200 million in legislative appropriations through the State Transportation Fund and over \$500 million in off-the-top income tax revenues from the ROADS Fund. Bonding would generate one-time revenue and would incur recurring obligations for annual bond payments of about \$7 million per \$100 million in bonds. [REVENUE: up to \$700M]
- **Impose a moratorium on tax credits:** During the last budget crisis of 2009-11, the Legislature voted to suspend various tax credits and rebates for a 24-month period, which saved about \$26 million. A similar moratorium could be enacted during this downturn. [REVENUE: Unknown]

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