

Oklahoma Policy Institute

8 REASONS WHY OKLAHOMA SHOULD PRESERVE THE STATE INCOME TAX

1. Income tax provides one-third of all state revenue. The state could not provide basic, essential services without income tax revenue unless other taxes were drastically increased. State income taxes pay for all of Governor Fallin's 8-year bridge improvement plan, salary and benefits for 17,000 classroom teachers, 19,000 Oklahoma's Promise scholarships, incarceration costs for 9,300 inmates, health care for 430,000 children, and more.

2. Oklahomans already pay comparatively low taxes. Oklahoma is 40th in the nation in state and local taxes collected as a share of personal income (2009). Per capita, Oklahomans pay about 20 percent less in taxes than the national average.

3. Tax collections are at historic lows. As a share of state personal income, tax collections and state appropriations have reached 30 year lows. In the mid 2000s, lawmakers approved a series of large cuts to the income tax. As a result of these cuts and the recession, revenues in FY 2010 were less than in FY 2006, even as costs rose due to inflation and increasing population.

4. Further erosion of our revenue base will do lasting damage to Oklahoma. After three years of repeated cuts to the state budget, the state has fallen further behind in funding teacher salaries and benefits, staffing our prisons and juvenile facilities, and ensuring the safety of children at risk of abuse and neglect, among other vital functions. We face growing obligations to fund our public pensions, protect our water system, repair our crumbling infrastructure, and take care of an aging population.

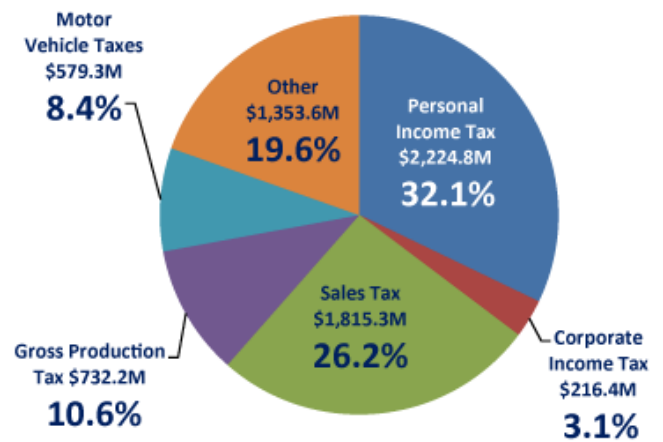
5. Oklahoma is already doing better than most states that lack an income tax. Oklahoma has a lower unemployment rate and better per capita income growth over the last decade than six out of the nine states with no income tax, including Texas.

6. Oklahoma's income tax rates do not hinder the state's business climate. Real-life examples and the most rigorous studies show tax differences between states are not a significant factor in attracting business. Far more important to economic development is access to skilled labor, nearby markets, public safety, and transportation infrastructure — most of which require public investments made possible by the income tax.

7. Oklahoma's combined state and local sales tax rate is already the 5th highest in the nation. If we raise the sales tax rate an additional 1 percent, it will be the highest in the nation. Increasing sales taxes will harm local business as consumers drive to neighboring states or shop online to avoid sales tax.

8. Income tax is vital for a balanced revenue system. Income tax is our main tool to balance the overall regressivity of state taxes, because sales and property taxes take a higher share of income from low- and moderate-income Oklahomans than from the wealthy. Shifting taxes to those already struggling to get by will in turn increase costs by pushing more families into poverty and reliance on government assistance.

Total State Tax Collections, FY '10



Based on the OK Policy issue brief, "The Case for the Income Tax."

Download the issue brief and other tax policy resources at <http://okpolicy.org/tax-reform-information>.

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