

AN OKLAHOMA AGENDA FOR BROAD-BASED PROSPERITY

OKLAHOMA NEEDS A BETTER BUDGET

The decisions that Oklahoma makes today about our state taxes and budget have a deep and enduring impact on our economic future. An enormous amount of research shows that public investments in education, public health and safety, and other core services are major drivers of productivity growth and improved living standards.

However, policy choices by Oklahoma lawmakers have failed to protect our most important public investments. We must change course or risk severe damage to our economic legacy for future generations. The following key facts and policy proposals outline a better agenda for Oklahoma — one that would put our finances on a sustainable course in a way that is fair and responsible to the needs of regular families.

Key Budget & Tax Facts

- ➔ **Years of large tax cuts and growing tax breaks have left Oklahoma unable to maintain key services.** Oklahoma has cut taxes by nearly \$1.5 billion annually since the mid-2000s. The overall share of Oklahomans' incomes going to state taxes is near a 30-year low. At the same time, Oklahoma has cut spending across all areas of public services. The total state appropriated budget for Fiscal Year 2017 is 15.2 percent less than it was in 2009, adjusted for inflation. Most state agencies have now been cut by 20 percent or more since before the Great Recession.
- ➔ **Tax cuts have done little for average Oklahoma families.** Two-thirds of the total tax cuts went to reducing the top income tax rate from 6.65 to 5.0 percent. These cuts provided minimal or no benefit to middle- and lower-income Oklahomans. These families who didn't get much benefit from income tax cuts are paying the biggest share of their incomes in state and local taxes, primarily due to high sales tax rates.
- ➔ **Education funding has been hit hard.** Public schools are receiving \$175 million less in state aid funding than in 2008, even as enrollment has grown by over 50,000 students. Oklahoma's per pupil cuts in state aid funding are the largest in the nation. Our teacher pay is now third-lowest in the nation, and school districts struggle to recruit and retain qualified teachers (when they aren't laying off teachers due to budget cuts).
- ➔ **Oklahoma continues to underfund care for our most vulnerable citizens.** We have the second highest rate of untreated mental illness in the nation, yet this year the Department of Mental Health was forced to cut services for over 70,000 adults and children with mental illness and reduce payments to treatment providers by up to 30 percent. Oklahomans with developmental disabilities, low-income seniors, and parents in need of child care assistance have all lost services due to budget cuts.

Oklahoma can do so much better! Turn the page for policy solutions.

POLICY SOLUTIONS: A BETTER BUDGET

- ➔ **Cancel the next income tax cut.** When you're in a hole, stop digging! Under a law passed in 2014, yet another tax cut could be automatically triggered in 2018 if officials project even slight revenue growth next year. After the steep funding cuts of previous years, Oklahoma needs more time for the budget to recover before considering any further tax cuts.
- ➔ **Restore the top tax rate for very high incomes.** 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 restore a top rate of 6 percent on income over \$200,000 (\$100,000 for single individuals) and 7 percent on income over \$400,000 (\$200,000 for individuals). This would still leave everyone with a lower effective tax rate than 15 years ago, while making the overall tax system fairer and generating crucial new revenue.
- ➔ **Strengthen broad-based tax credits.** Last session, lawmakers cut the state Earned Income Tax Credit by close to \$30 million, taking an important tax benefit away from many low-income working families who have received little or nothing from recent tax cuts. To help support working families, the state should either restore the Earned Income Tax Credit or boost the Sales Tax Relief Credit, which helps offset the sales tax paid on groceries and other household items.
- ➔ **End unnecessary corporate welfare.** The state loses hundreds of millions of dollars each year in tax breaks to various industries that may not be contributing to more jobs and investment. Lawmakers should restore gross production taxes to the long-established rate of 7 percent, accelerate the end of subsidies for wind production, and end the tax exemption for the sale of Oklahoma-held capital gains.
- ➔ **Prevent corporate tax shelters with combined reporting.** Some multi-state corporations shift their Oklahoma income to out-of-state subsidiaries to avoid state taxes. Most states have adopted combined corporate reporting, which effectively halts this tax avoidance strategy and ensures that multi-state corporations pay their fair share of taxes, just like local businesses.
- ➔ **Repeal State Question 640.** Under the changes to Oklahoma's Constitution made by SQ 640, lawmakers can cut taxes with a simple majority but need a 3/4ths supermajority for any tax increase. The supermajority requirement prevents lawmakers from responding flexibly and appropriately to the needs of Oklahomans, even in the time of a crisis. Oklahoma should develop a ballot initiative to repeal SQ 640 or craft a less restrictive alternative.
- ➔ **Bring transparency to the budget process.** In recent years, the state budget bill has been negotiated in secret until the final days of session and then brought up for a final vote within days or hours of being introduced. This leaves far too little time for legislators and the public to scrutinize and debate the budget. Oklahoma should require a minimum of one week between when the budget bill is introduced and when it can come up for a vote.

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