Report: Inequitable Tax Code Costs Oklahoma Up to $1.8 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical State Priorities, Restoring Cuts to Higher Education, Paying Down Pension Debt

As the Oklahoma legislature grapples with difficult budget choices, a new report out today shows that the state could generate up to $1.8 billion in revenue by fixing inequities in the state tax code.

Oklahoma’s highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution – 4.3 percent to 9.4 percent, respectively. The report, *Tax Fairness: An Answer to Oklahoma’s Budget Problems*, released by the Keystone Research Center, finds that if Oklahoma taxed the highest-income one percent of tax payers at the same rate as the middle 20 percent, state could raise $905 million per year. Similarly, if the top 20 percent of income earners paid a fair tax, Oklahoma could raise $1.82 billion per year.

“Revenue lost because of the one-two punch of rising income inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said Stephen Herzenberg, KRC economist and executive director. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of taxpayers received less than 11 percent of total income in Oklahoma. By 2012, their share of Oklahoma’s total income almost doubled, to over 20 percent. This shift equals means that, every year, $21 billion in income now goes to just one percent of Oklahomans.

For context: $21 billion is about three times the Oklahoma state (General Fund) budget and 54 times the annual cost of paying down the state’s pension debt.

Taxing upper income groups at the same overall tax rate as middle-class Oklahomans would relieve enormous pressure on the state’s budget. The $905 million raised from applying tax fairness to the one percent is about two-and-a-half the annual cost of pension debt. The $1.82 billion from extending tax fairness to the top 20 percent is about a quarter of the Oklahoma General Fund budget, an amount that could substantially increase investment in education, infrastructure, and essential services.

The loss of revenue because the top one percent pay low tax rates is not unique to Oklahoma. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Nationwide, applying tax fairness to the one percent would generate $68 billion, or $128 billion if applied to the top 20 percent.
“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Greg LeRoy, executive director of Good Jobs First, which partnered with KRC on the national companion report to the Oklahoma brief. “The middle class won’t recover—and states won’t get their finances in order—until they fix their tax codes.”

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