Tax Fairness: An Answer to Oklahoma’s Budget Problems

In Oklahoma, the very highest-income residents are getting richer: the top one percent of taxpayers—those who earned average income of $1.1 million in 2012—now get a fifth of all the state’s income. They also pay less of their income in taxes than everyone else—less than half the rate of the middle class. If these high income earners paid taxes at the same rate as middle-class Oklahomans, the commonwealth could solve many of its budget problems—raising $905 million a year for education, infrastructure, health care, pensions and job creation.

The Rich Are Getting More Income than Ever

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.¹
High-Income People Pay Far Less of Their Income in Taxes than the Rest of Us

The Institute on Taxation and Economic Policy ranks Oklahoma as the 16th most regressive tax system. High-income residents pay a far smaller share of their income in state and local taxes than middle class residents. The high-income one percent of Oklahomans pay just 4.3 percent of their income in taxes, while the middle fifth pay more than twice that rate: 9.4 percent. Oklahoma’s lowest income families pay even more: 10.5 percent.

![Graph showing tax rates by income level in Oklahoma]

There are a few basic reasons Oklahoma’s tax system is so inequitable, and the solutions are simple.

- Oklahoma has a low top income tax rate and requires many middle-class as well as upper-income taxpayers to pay the same rate.
- Oklahoma has a comparatively high combined state and local sales tax rate.
- Oklahoma also requires payment of state and local sales taxes on groceries.
Taxing upper income groups at the same overall tax rate as middle-class Oklahomans would relieve enormous pressure on the state’s budget. Taxing just the highest one percent at the rate that the middle fifth pays would raise $905 million in new revenue about two-and-a-half the annual cost of pension debt. Extending tax fairness to the top 20 percent would generate twice as much revenue—an estimated $1.82 billion in additional revenue each year. This is about a quarter of the Oklahoma General Fund budget, an amount sufficient to substantially increase investment in education, infrastructure, and essential services.

**Tax Fairness is Not Rocket Science**

There are many ways that Oklahoma could embrace tax fairness. It could raise its top income tax rate but ensure that the highest rates are only paid by top earners. It could also eliminate the sales tax on groceries.

After 30 years of a middle-class squeeze, it’s time to restore balance. One percent of Oklahomans get about twice the share of income they got 30 years ago—taxing them at less than half the middle-class rate is the wrong direction. Solving the budget deficit through tax fairness while restoring education and infrastructure will help revitalize Oklahoma’s economy.
This assumes that Nevada’s $11.6 billion unfunded pension liability is paid off in equal installments over 30 years. Estimate of unfunded pension liabilities from Pew Charitable Trusts, *The Fiscal Health of State Pension Plans*, March 2014, online at [http://www.pewtrusts.org/~/media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf](http://www.pewtrusts.org/~/media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf)