

# Oklahoma Taxes Hit Poor & Middle Class Much Harder than the Wealthy

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Low- and middle-income families in Oklahoma pay a higher share of their income in state and local taxes than do the richest Oklahoma taxpayers, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Oklahoma has an unfair tax system.”

## Oklahoma’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Oklahoma taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Oklahoma families—with average incomes of \$518,700—is 7.9% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 5.7%.
- The tax rate on families in the middle of the income distribution—those earning between \$22,000 and \$37,000—is 11.2% before the federal offset and 11.1% after, almost twice the effective rate the richest pay.
- But the tax rate on the poorest Oklahoma families—those earning less than \$12,000—is the highest of all. At 12.0% it is more than twice the effective rate of the wealthiest Oklahoma taxpayers.

“Oklahoma’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Oklahoma.”

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## Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Oklahoma taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Bracket creep largely offset progressive changes like the adoption of the Earned Income Tax Credit.
- Increases in effective property tax rates made Oklahoma's tax system more regressive.

"Burdens rose for everyone in Oklahoma since 1989, but more for middle-income families than for anyone else. Oklahoma remains a state where low- and middle-income taxpayers pay far higher effective rates than the wealthy," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should consider asking the best-off people in the state to start paying their fair share of the tax burden."

### **Two pages of tables detailing the Oklahoma findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

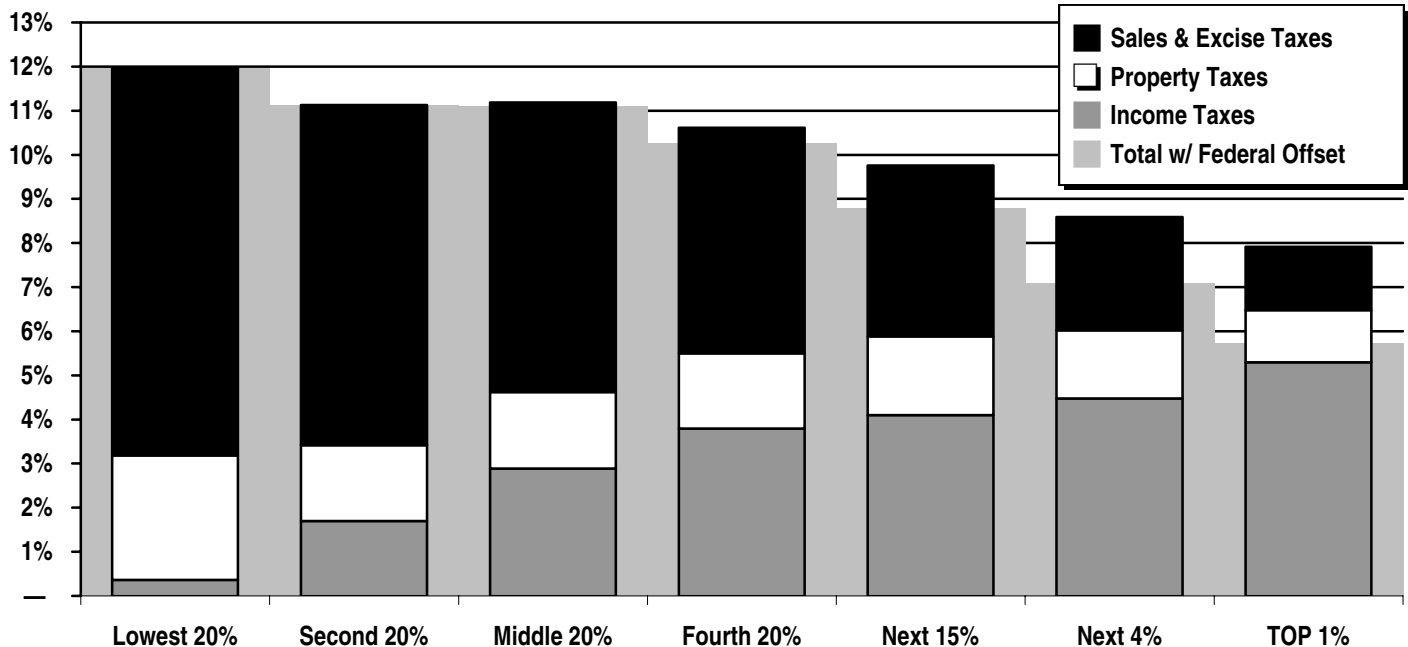
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Oklahoma

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$12,000	\$12,000 – \$22,000	\$22,000 – \$37,000	\$37,000 – \$60,000	\$60,000 – \$110,000	\$110,000 – \$252,000	\$252,000 or more
Average Income in Group	\$7,400	\$17,000	\$28,100	\$47,100	\$78,100	\$149,000	\$519,000
<b>Sales &amp; Excise Taxes</b>	<b>8.8%</b>	<b>7.7%</b>	<b>6.6%</b>	<b>5.1%</b>	<b>3.9%</b>	<b>2.6%</b>	<b>1.4%</b>
General Sales—Individuals	5.3%	4.7%	4.1%	3.3%	2.5%	1.7%	1.0%
Other Sales & Excise—Ind.	1.1%	0.9%	0.7%	0.5%	0.3%	0.2%	0.1%
Sales & Excise on Business	2.3%	2.2%	1.8%	1.3%	1.0%	0.7%	0.4%
<b>Property Taxes</b>	<b>2.8%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.2%</b>
Property Taxes on Families	2.8%	1.7%	1.7%	1.6%	1.7%	1.4%	0.8%
Other Property Taxes	0.1%	0.0%	0.1%	0.1%	0.1%	0.2%	0.4%
<b>Income Taxes</b>	<b>0.4%</b>	<b>1.7%</b>	<b>2.9%</b>	<b>3.8%</b>	<b>4.1%</b>	<b>4.5%</b>	<b>5.3%</b>
Personal Income Tax	0.3%	1.7%	2.9%	3.8%	4.1%	4.4%	5.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
<b>TOTAL TAXES</b>	<b>12.0%</b>	<b>11.1%</b>	<b>11.2%</b>	<b>10.6%</b>	<b>9.8%</b>	<b>8.6%</b>	<b>7.9%</b>
Federal Deduction Offset	—	-0.0%	-0.1%	-0.4%	-1.0%	-1.5%	-2.2%
<b>TOTAL AFTER OFFSET</b>	<b>12.0%</b>	<b>11.1%</b>	<b>11.1%</b>	<b>10.3%</b>	<b>8.8%</b>	<b>7.1%</b>	<b>5.7%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Oklahoma Tax Trends

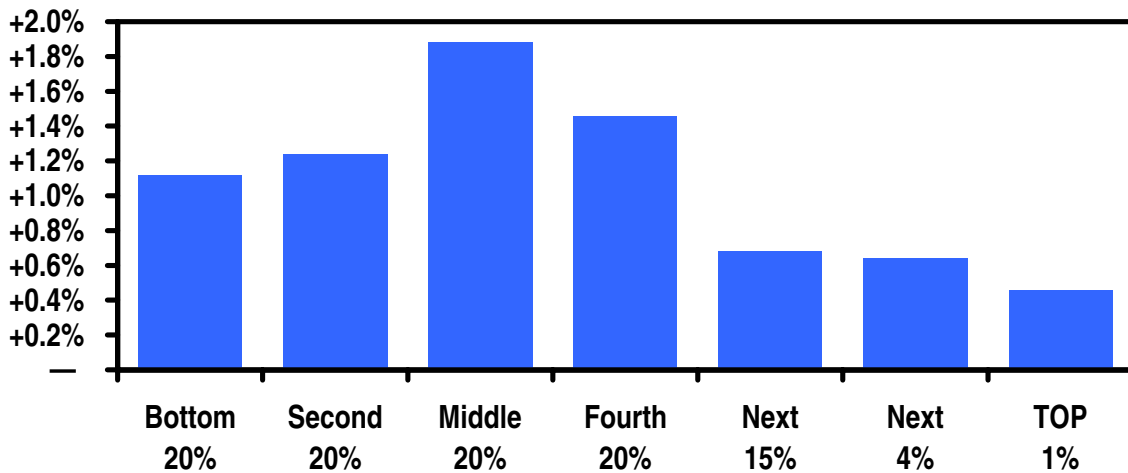
## Progressive Features

- ✓ Refundable "Food Sales Tax Credit"
- ✓ Property tax homestead exemption
- ✓ Refundable EITC

## Regressive Features

- ✗ Sales tax applies to groceries
- ✗ Deduction for federal income taxes paid
- ✗ No indexing of brackets or exemptions

## Changes in Taxes as Shares of Income, 1989 – 2002

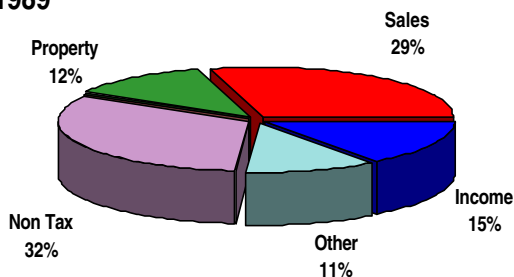


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Sales &amp; Excise</b>	+0.4%	+0.2%	+0.3%	+0.2%	+0.2%	+0.1%	+0.1%
<b>Property</b>	+0.6%	+0.1%	+0.3%	+0.1%	+0.0%	-0.1%	+0.2%
<b>Income</b>	+0.2%	+0.9%	+1.3%	+1.2%	+0.7%	+0.9%	+1.0%
<b>Federal Offset</b>	+0.0%	-0.0%	-0.0%	-0.1%	-0.2%	-0.3%	-0.8%
<b>Overall Change</b>	+1.1%	+1.2%	+1.9%	+1.5%	+0.7%	+0.6%	+0.5%

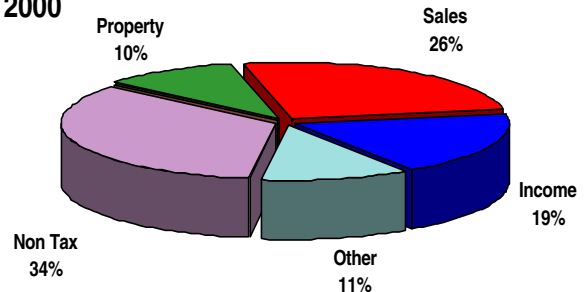
The erosion of the value of exemptions, deductions and tax brackets due to inflation, combined with a new top rate, caused income taxes to rise. This was mitigated for the bottom 20% only through the introduction of new refundable credits, including an EITC and a grocery sales tax credit. The general sales tax rate went up by 0.5%, a regressive change.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census