

## League of Women Voters of Oklahoma Fiscal Policy Restudy

### Oklahoma Taxes and Revenues

Many ancient civilizations levied taxes on their citizens. The earliest recorded go back to 6000 BCE. Many of these taxes were issued only during times of war or famine. As societies evolved, their forms of taxation became more elaborate. <sup>1</sup>

The current tax structure in Oklahoma reflects the complexity of a modern society. Oklahoma state government derives the revenue it needs to function from income taxes (personal and corporate), property taxes, sales taxes, gross production (severance) taxes, **motor vehicle taxes**, **motor fuel taxes**, tobacco taxes, alcohol taxes, insurance taxes and fees too numerous to mention.

These taxes may be looked at in several ways. They may be compared to similar taxes in other states. They may be examined in terms of how they are used and they may also be considered in the light of the number of tax exemptions, credits and incentives that exist.

The Tax Foundation provides an annual survey entitled Facts and Figures <sup>2</sup> that compares the tax rates of the 50 states and the District of Columbia. The 2015 survey reveals that Oklahoma ranks 39<sup>th</sup> in the nation in terms of the state and local per capita tax burden as a percentage of state income (only 11 states have a lighter tax burden than Oklahomans). We are ranked 32<sup>nd</sup> in terms of our business climate (we are in the bottom half of states in this category), 36<sup>th</sup> in state tax collections per capita (only 14 states are worse), but 17<sup>th</sup> in the federal aid as a percentage of state income we receive (only 16 states get more federal aid as a percentage of state income).

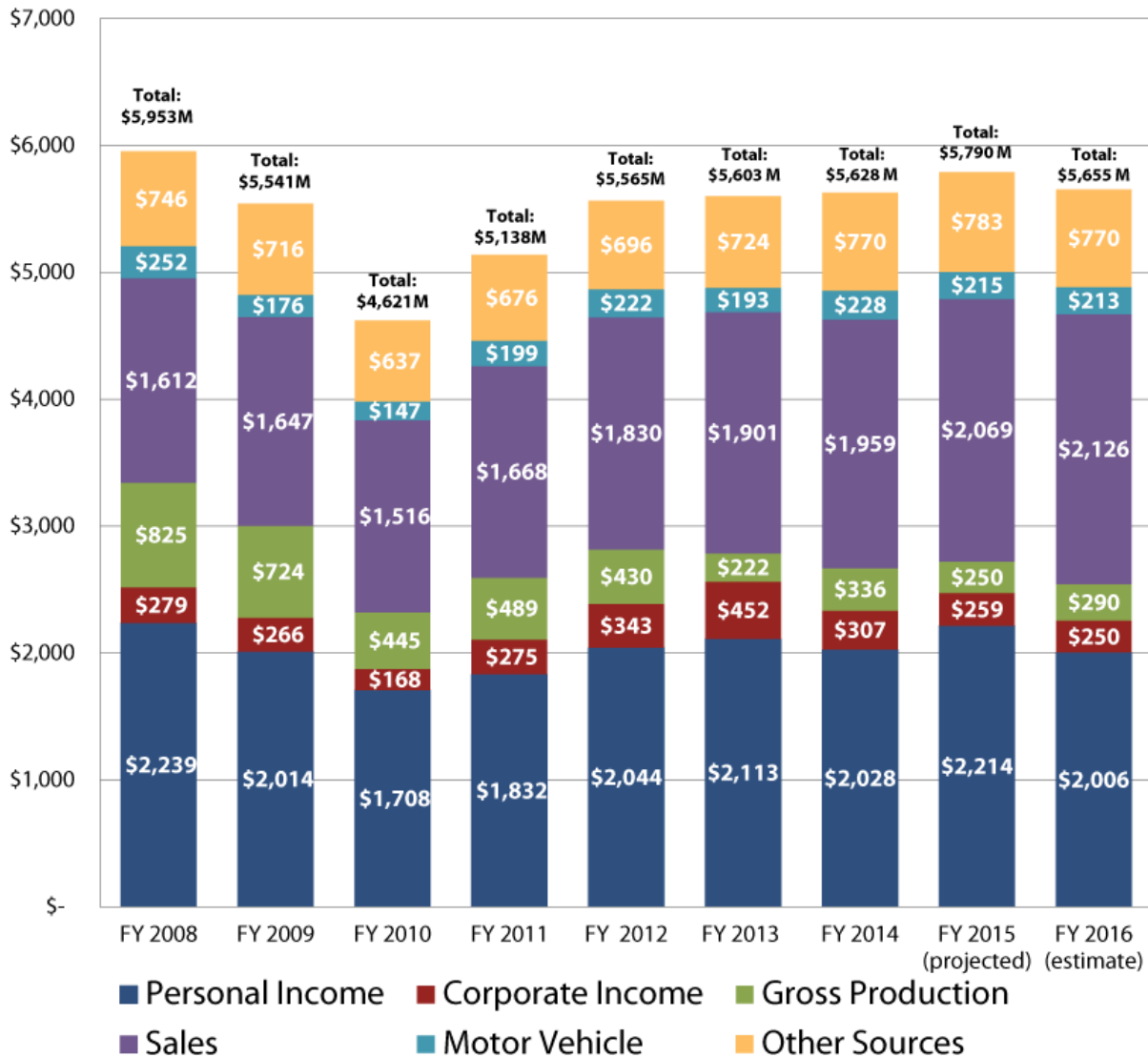
The graph on the following page shows the dollar amounts received from each revenue source from 2008 to 2016. <sup>3</sup>

Red numbers indicate citations to be found in the endnotes after each section of this paper.

Words or phrases in **bold italics** are defined in the glossary

# General Revenue by Tax, FY 2008 to FY 2016

(in \$ millions; FY 2015 and FY 2016 based on Feb. 2015 Board of Equalization estimates)



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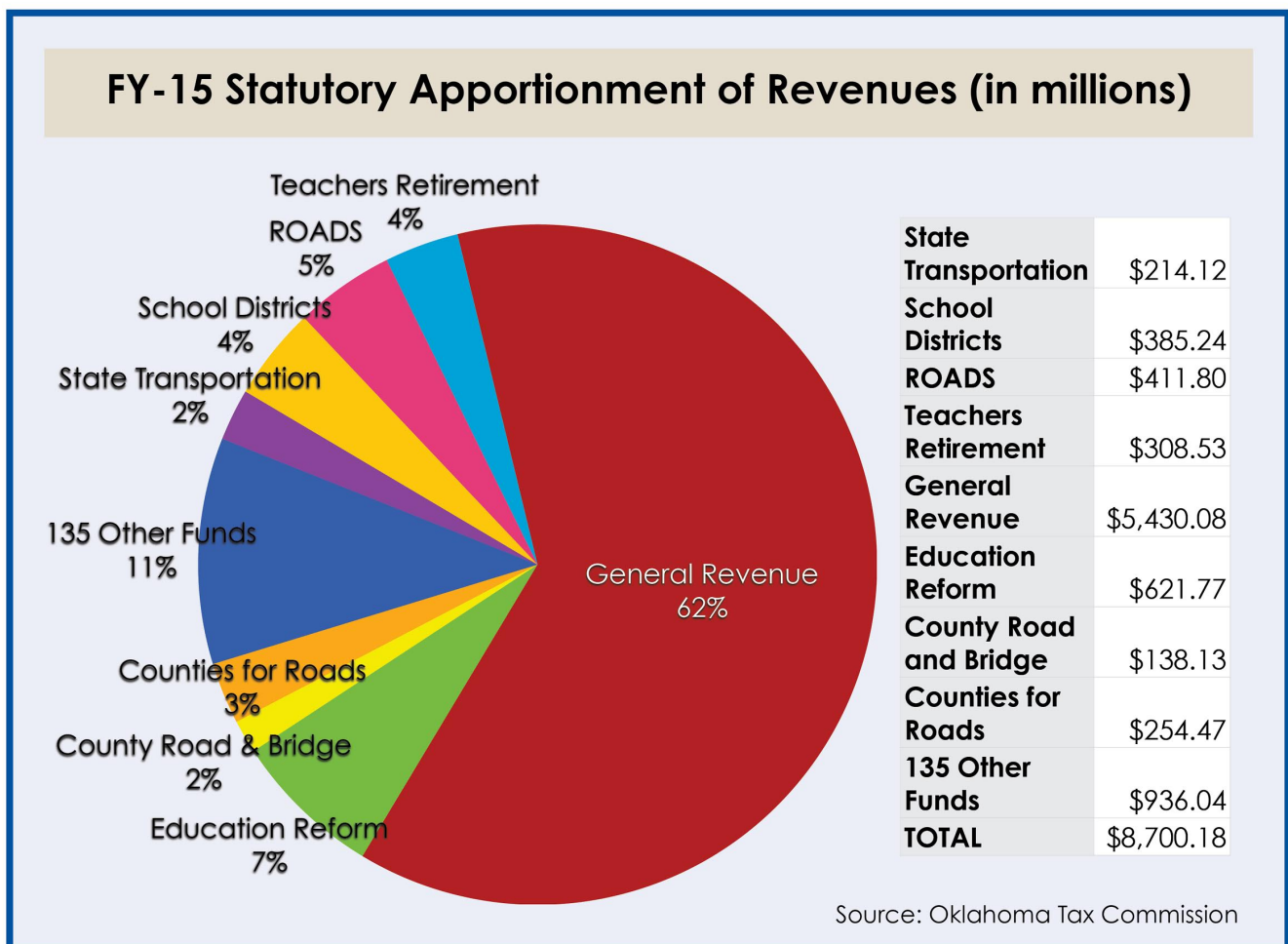
In 2016 Oklahoma derived more of its income from sales tax than from either property or individual income taxes. <sup>4</sup> Our 8.77% combined state and average local rate puts us at 6<sup>th</sup> place in the nation. We rank 47<sup>th</sup> in state gasoline taxes and 31<sup>st</sup> in cigarette taxes. And, we rank almost at the very bottom (49<sup>th</sup> place) in state and local property tax collections per capita. Oklahoma is one of only 7 states that imposes a sales tax on food. <sup>5</sup>

The Tax Foundation provides little information on how Oklahoma compares to other states in the number of fees assessed by its various divisions. Indeed, it is difficult to find a comprehensive list of such fees. Many such fees are for activities such as hunting and fishing licenses. <sup>6</sup> Motor vehicle licenses are considered fees. The Secretary of State’s website lists 100 different fees related to businesses alone. <sup>7</sup> Of late, the fees that have drawn most attention in the state are those charged by the corrections system to people who have either been convicted or are awaiting trial. <sup>8</sup> It has been said that these fees represent, in many

cases, a passing on of expenses to alleged criminals because of the underfunding of the corrections system by the state.

**Dedicated funds** are another major concern with taxes and fees. Such monies are sometimes referred to as **off-the-top** funds or **earmarks**. Since the major objective of taxation is to provide the government with the revenue it needs to fulfill its core mission (services it provides its citizens), anything that prevents revenue from reaching the state coffers should be examined. In an essay prepared for the 2015 Oklahoma Academy Town Hall, the Director of the Oklahoma Office of Management and Enterprise Services Preston Doerflinger states that “of the \$24 billion at its disposal for the Fiscal Year 2016 budget, just \$7 billion of those dollars are appropriated.”<sup>9</sup> Some of the remaining \$17 billion comes from federal funds and other monies that have been collected by specific agencies for their own purposes. However, a significant portion of the unappropriated funds comes from monies that have been set aside or dedicated by legislators in previous years. In a conversation with a LWVOK delegation, Oklahoma Treasurer Ken Miller offered a somewhat different view. Although he would prefer that all monies received go into the **general revenue fund**, he admitted that a large percentage of these funds would need to go to the agencies (education and infrastructure) that currently receive them through dedicated funding.

The **Oklahoma Tax Commission** provides exhaustive information on how various taxes and fees are allocated.<sup>10</sup> The following chart shows **statutory apportionment** of revenue (in millions) from FY 2015.<sup>11</sup>



The charts below show the distribution of the the state income tax and the gross production tax.

### 2016 Distribution of Income Tax

General Revenue Fund	85.66%
Teachers' Retirement Fund	5.0%
Education Reform <i>Revolving Fund</i>	8.34%
Ad Valorem Reimbursement Fund	1.0%

One-hundred percent of motor vehicle tax stamps go into the general fund, but none of the **gross production tax** on oil and natural gas (7%) <sup>12</sup> goes to the general fund.

### 2016 Distribution of Gross Production Tax on Oil and Natural Gas (7%)

Common Education Technology Fund	25.72%
Higher Education Capital Fund	25.72%
Oklahoma Student Aid Revolving Fund	25.72%
To Counties for Highways	7.14%
School Districts	7.14%
To Counties for Bridges and Road Repair	3.745%
Oklahoma Tourism and Recreation Department Revolving Fund	1.43%
Oklahoma Conservation Commission Infrastructure Fund	1.43%
Community Water Infrastructure Development Revolving Fund	1.43%
Statewide Circuit Engineering District Revolving Fund	0.535%

One concern with dedicated or off-the-top funds is that they reduce the amount of money that the Legislature can appropriate each year. An additional concern is with transparency. When average citizens see that state funding in a given area is reduced, they may not be aware of the funding that is being supplied to that agency through dedicated funds. The budget process is not easy in any case; it becomes much more complex when it lacks transparency. <sup>13</sup> Several specialists in the area of taxation advocate eliminating dedicated funds altogether.

The use of property (ad valorem) taxes is determined by the state constitution. <sup>14</sup> Many people assume that, because property tax is assessed at the local level, these taxes support local government. They do not. They go to education (65% for common schools and 13% for career tech) and to various county offices as well as general obligation bonds and city/county libraries. <sup>15</sup>

To have a reasonably satisfactory grasp of how taxes affect the state's fiscal policy, it is also necessary to understand how individuals and corporations can be exempt from paying certain taxes. This can be done through tax credits, tax exemptions and **tax incentives**. A quick glance at the table of contents of the Oklahoma Tax Commission's 122-page document on income taxes provides an insight into the number of tax exemptions and credits just in the area of income.<sup>16</sup> Not all of these exemptions and credits are suspect. The earned income tax credit (EITC) is widely believed to be essential to the support of low-income individuals.<sup>17</sup>

However, it is hard to ignore that, over time, the number of tax incentives, credits and exemptions has grown to the point that they constitute a substantial strain on the state's budget. The Oklahoma Department of Commerce publishes an 83-page document that describes business incentives and provides a guide to taxes, Oklahoma Business Incentives and Tax Guide.<sup>18</sup> This same document contains information on tax credits and exemptions. There are also personal exemptions on both income and property taxes.<sup>19</sup>

## ENDNOTES ON OKLAHOMA TAXES AND REVENUES

1. World Taxation: History of Taxation <http://www.worldtaxation.com/uncategorized/history-of-taxation.html>
2. Tax Foundation: [http://taxfoundation.org/sites/taxfoundation.org/files/docs/Fact%26Figures\\_15\\_web\\_9\\_2.pdf](http://taxfoundation.org/sites/taxfoundation.org/files/docs/Fact%26Figures_15_web_9_2.pdf)
3. Oklahoma Policy Institute, [www.okpolicy.org](http://www.okpolicy.org); graph reprinted with permission. For further information see OK Policy's analysis of the FY 2016 Budget at [http://okpolicy.org/wp-content/uploads/2016\\_Budget\\_Highlights.pdf?b0f37e](http://okpolicy.org/wp-content/uploads/2016_Budget_Highlights.pdf?b0f37e)
4. Tax Foundation, Facts and Figures p. 16. See also Oklahoma Policy Institute: <http://okpolicy.org/resources/online-budget-guide/revenues>
5. Center for Budget and Policy Priorities: <http://www.cbpp.org/research/which-states-tax-the-sale-of-food-for-home-consumption-in-2009>
6. Oklahoma Wildlife Department: <https://www.wildlifedepartment.com/forget1/LicenseDescription.aspx>
7. Oklahoma Secretary of State Filing Fees: <https://www.sos.ok.gov/business/fees.aspx>
8. Oklahoma Watch: <http://oklahomawatch.org/2015/01/31/justice-system-steeps-many-offenders-in-debt/>
9. Oklahoma Academy Town Hall: <http://www.okacademy.org/PDFs/2015Research.pdf>, p. 24
10. Oklahoma Tax Commission: [https://www.ok.gov/tax/Forms\\_&\\_Publications/Reports\\_&\\_Statistics/Appportionment\\_Charts\\_&\\_Formulas/index.html](https://www.ok.gov/tax/Forms_&_Publications/Reports_&_Statistics/Appportionment_Charts_&_Formulas/index.html) 2016 Apportionment of Statutory Revenues by Percentage
11. Oklahoma Economic Report, Feb. 2016 [https://www.ok.gov/treasurer/documents/OER\\_2-29-16.pdf](https://www.ok.gov/treasurer/documents/OER_2-29-16.pdf)
12. Gross production taxes for 2016 are divided according to percentages (1%, 2%, 4% and 7%) and these percentages depend on the year that the well was first dug.

13. The Oklahoman: <http://newsok.com/earmarking-strains-oklahoma-state-budgeting-process/article/4987957>
14. Oklahoma Constitution, Article 10, Section 9
15. Oklahoma Property Taxes, p. 17: <https://www.ok.gov/tax/documents/TES-14.pdf>
16. Oklahoma Tax Commission, pp. 4-6: <https://www.ok.gov/tax/documents/Chapter%2050%20Income.pdf>
17. Center for Budget and Policy Priorities: <http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits?fa=view&id=2506>
18. Oklahoma Department of Commerce: [http://okcommerce.gov/wp-content/uploads/2015/06/Oklahoma\\_Business\\_Incentives\\_and\\_Tax\\_Guide.pdf](http://okcommerce.gov/wp-content/uploads/2015/06/Oklahoma_Business_Incentives_and_Tax_Guide.pdf)
19. <https://www.ok.gov/tax/documents/TES-14.pdf> and <https://www.ok.gov/tax/documents/Chapter%2050%20Income.pdf>