

# OKPOLICY.ORG

## Oklahoma Policy Institute

### Bridging the Budget Gap:

#### Revenue Options for a Balanced Approach

#### SPECIAL POINTS OF INTEREST

- Without additional revenues, next year's budget will require cuts of up to 12 percent across all state agencies on top of the cuts already enacted.
- Cuts of this magnitude would seriously damage core public services.
- Policymakers should choose a balanced approach to bridging the budget gap, one that includes new revenues in addition to budget cuts, efficiencies, and using reserves.
- Sensible revenue options include: eliminating the deduction for state income taxes; revisiting the vendor discount; enhancing collections of taxes on remote sales; and controlling runaway tax credits.

Oklahoma is facing a severe and prolonged fiscal crisis. While budget cuts enacted this year are already corroding the public services upon which Oklahomans rely, the outlook for the coming year is even worse. Without additional revenues, next year's budget gap is equivalent to an *additional 11 to 12 percent cuts to every agency of state government* on top of the cuts already enacted. Cuts of this magnitude would inflict serious and lasting damage to our ability to provide education and public safety, meet the growing needs for social services, and maintain needed investment in physical infrastructure. To avoid this outcome, policymakers can choose a balanced approach, one that includes new revenue sources along with budget cuts, efficiencies, and using reserves.

OK Policy believes the following revenue proposals represent sound and feasible policy ideas to help bridge the budget gap:

#### 1. Eliminating the State Deduction for State Income Taxes

Oklahoma is one of only five states that allow taxpayers who claim itemized deductions to also deduct state income taxes on their state returns. Closing this loophole would yield the state nearly \$120 million and affect only those who itemize their deductions.

#### 2. Revisiting the Vendor Sales Tax Discount

The rebates Oklahoma pays to vendors for helping collect the sales tax were set long ago when compliance costs were higher. The state could lower the discount rate and lower the monthly cap.

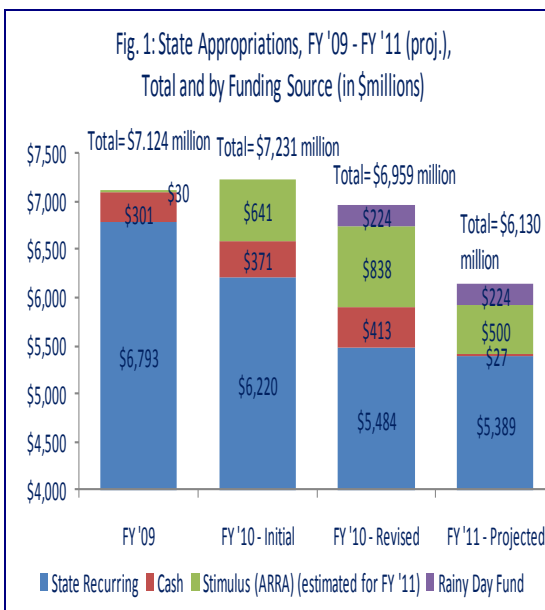
#### 3. Enhancing Tax Collections of Online Sales

The constraints the state faces in collecting sales tax owed on many online purchases deprives state and local government of needed revenue and puts Main Street retailers at a competitive disadvantage. The state should broaden its definition of "nexus" to collect taxes that are already owed.

#### 4. Controlling Runaway Tax Credits

The cost of certain tax credits has exploded in recent years. Some credits should be eliminated, while others could be suspended or capped until revenues recover.

*For the full-length issue brief, go to: <http://okpolicy.org/fy-10-fy-11budget-information>*



Better Information, Better Policy