FACTSHEET

OKPOLICY.ORG

Oklahoma Policy Institute

SEPTEMBER 2008

Oklahoma's Tax Cuts: Who Benefits?

Tax cuts enacted between 2004 and 2006 will reduce Oklahoma's revenues by more than $800 million when fully phased-in. Among the many tax cuts, the two largest involved cutting the top personal income tax rate and raising the standard deduction..

⇒ CUTTING THE TOP TAX RATE PRIMARILY BENEFITS THE WEALTHY

- The top personal income tax rate was reduced from 6.65 percent to 5.5 percent in 2008. The top rate will fall to 5.25 percent in 2010, subject to growth in overall state revenue. At the same time, an alternate method for calculating tax liability (Method 2) was eliminated.
- This tax cut reduces state revenues by $579 million per year when fully phased in.
- Almost three-quarters (73 percent) of the total benefit from lowering the top rate, equaling $423 million, goes to the wealthiest fifth of households, with income over $75,700.
- A full 29 percent of the benefit, or $169 million, goes to the wealthiest 1 percent of households, with income over $368,100.
- The poorest 40 percent of households, with incomes below $27,800, receive only 3 percent of the benefit, totaling just $17 million.
- A family of four earning below $25,500 receives *zero benefit* from the rate cut in 2008 because their income is not taxed at the top rate. The same is true for a single individual earning below $13,000.

Average Tax Cut from Reducing the Top Rate, Select Income Groups:

Bottom 40 percent (less than $27,800):	$29
Middle-income Taxpayer ($35,400):	$128
Top 20 percent (above $75,700):	$1,428
Top 1 percent (above $368,100):	$11,179

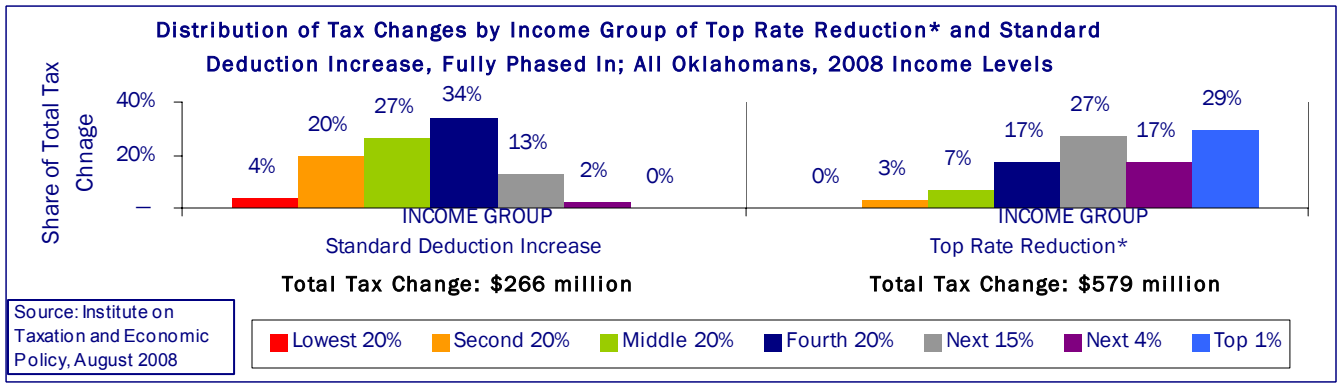
⇒ INCREASING THE STANDARD DEDUCTION BENEFITS LOW– AND MODERATE-INCOME HOUSEHOLDS

- The standard deduction claimed by taxpayers who do not itemize was increased from $2,000 in 2004 to $6,500 in 2008. It will rise to the full federal amount (approximately $11,400) in 2010.
- This tax cut reduces state revenues by $266 million per year when fully phased in.
- Over half the benefit from raising the standard deduction (51 percent) goes to the bottom 60 percent of taxpayers.

The above information is derived from an analysis conducted by the Institute on Taxation and Economic Policy.

⇒ TAX CUTS HARM OKLAHOMA'S ABILITY TO FUND PRIORITIES AND PREPARE FOR THE FUTURE

- Tax cuts affect the state's ability to meet its current needs and future obligations. Since the state must balance its budget, tax cuts directly limit the resources available to improve underfunded schools, colleges, social services, and infrastructure.
- Top rate cuts going to the wealthiest 1 percent of households alone ($169 million when fully phased-in) are the rough equivalent of the cost of a $1,500 salary increase for every teacher in the state, a 3 percent cost-of-living adjustment for state employees, and additional staff for our child welfare system and correctional facilities.



*Top rate reduction includes elimination of federal personal income tax deduction ("Method 2"); assumes top rate of 5.25%