

## [Tax cuts do not have to be regressive](#)

by [David](#) | March 17th, 2011 | Posted in [Taxes](#) | Tagged with [income tax](#), [Institute for Taxation and Economic Policy](#), [progressive taxes](#), [regressive taxes](#), [tax cuts](#), [tax distribution](#), [the Oklahoman](#) | [with 6 comments](#)

A [recent OK Policy fact sheet](#) that analyzed the distribution of benefits from cutting the state's top personal income tax rate from 5.5 to 5.25 percent has generated [considerable interest and discussion](#). The tax cut would have a \$120 million revenue impact; the analysis – conducted for us by the Institute for Taxation and Economic Policy (ITEP) - found that:

- The top twenty percent of Oklahoma households – those with annual income above \$85,800 – would receive 73 percent of the benefit of the tax cut;
- The average household would receive \$24;
- More than two of every five households (43 percent) would receive no benefit at all.

We argued:

By taking so much revenue away and giving the benefits to a relatively small group, the state will be shifting a larger proportion of the cost of providing services onto lower- and middle-income Oklahomans.

Some critics of our brief have responded by asserting that tax cuts must by definition benefit the wealthy because they pay the most taxes, while lower-income Oklahomans are excluded because they lack any tax liability. For example, The [Oklahoman's editorial Board](#) wrote, "Since the rich pay much more in taxes, it follows that they benefit much more from tax cuts."

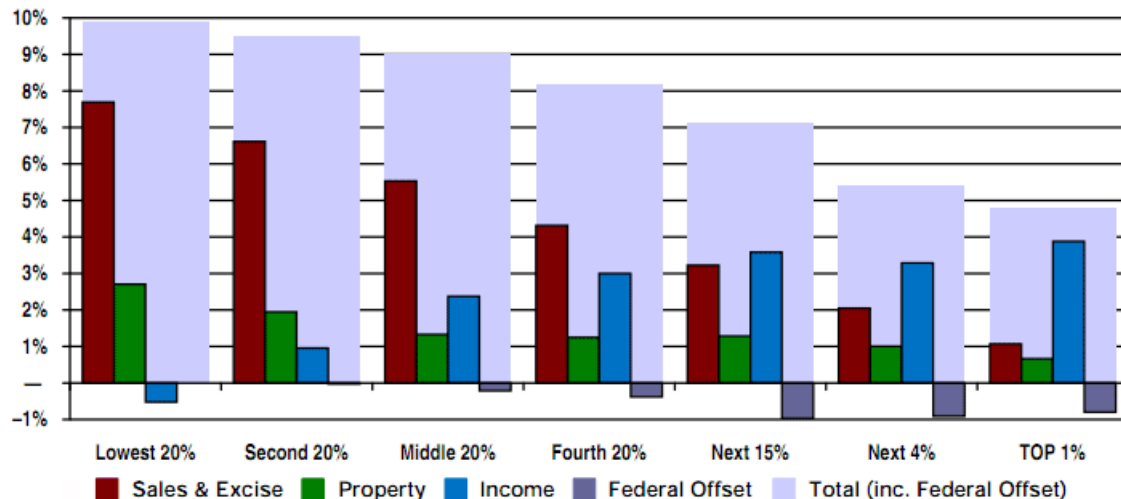
It is true that wealthier households do pay a higher share of the state *income tax*, since more of their income is taxed at the top marginal rate. It is for that reason that the income tax is the one (slightly) progressive component of our state and local tax system. Since Oklahoma tied the state standard deduction to the federal standard deduction and enacted a modest state Earned Income Credit, most households living at or below the poverty level – roughly \$22,000 for a family of four – do not have state income tax liability.

However, even those low- and moderate-income families contribute through the taxes they pay on the goods they consume and the property they own or rent. Sales and excise taxes and property taxes are regressive, in that they consume a greater share of the income of low- and moderate-income households than of wealthier households. Overall, when all taxes are considered, [we find that](#) the lowest income Oklahomans paid 9.9

percent of their income in state and local taxes in 2007, compared to 4.8 percent for the very wealthiest in the state.

## State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



Source: Who Pays?: A Distributional Analysis of the Tax Systems of All 50 States, Third Edition  
Institute on Taxation and Economic Policy; [http://www.itepnet.org/state\\_reports/whopays.php](http://www.itepnet.org/state_reports/whopays.php)

We have [previously suggested](#) numerous possible approaches for improving tax equity, including: raising the personal exemption, which has been left unchanged at \$1,000 per household member since the early 1980's; stretching out and indexing the tax brackets so that more income is taxed at a lower rate; expanding the tax credit that offsets the sales tax paid on groceries; and providing a renter's property tax credit for low- and moderate-income renters.

In other words, there is more than one way to cut taxes. Doing it the way that mostly benefits those with the highest incomes, namely cutting the top marginal rate, was a choice, not a foregone conclusion. Going forward, we do not think that tax cuts are the right priority given Oklahoma's [low level of taxation](#) and the deep spending cuts that have been enacted in recent years. However, if tax cuts are on the table – as one suspects they may be in future legislative sessions – then one goal should be to make Oklahoma's tax system less regressive, not more so.