



# SIMPLIFYING OKLAHOMA'S PERSONAL INCOME TAX

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All individuals, and more than 95% of Oklahoma businesses (filing as pass-through entities), must pay the personal income tax. A graduated bracket or “progressive” income tax—like Oklahoma’s—subjects different income levels to different rates, introducing complexity into the system and penalizing individuals and businesses as they work more to produce more additional income. A flat rate income tax treats all income the same, making for a simpler tax system and encouraging economic growth.

## OKLAHOMA'S PERSONAL INCOME TAX

Oklahoma currently has six income tax brackets ranging from 0.5% to 4.75% for top earners. With the top rate kicking in at a relatively low level of income (\$7,200 for individuals and \$12,200 for joint filers), the vast majority of most tax filers' income is subject to the top rate, 4.75%. Until repealed in Spring 2023, Oklahoma's income tax included a marriage penalty.

## STANDARD DEDUCTION

Most taxpayers in Oklahoma utilize the standard deduction instead of itemizing deductions, which exempts income taxpayers earn up to the amount of the deduction. All income above the standard deduction amount is taxed. Currently, Oklahoma's standard deduction is \$6,350 for single filers and \$12,700 for taxpayers filing jointly, less than half of the federal standard deduction at \$12,950 for single filers and \$25,900 for joint filers.

The standard deduction is the most valuable to taxpayers with lower incomes because it exempts a greater share of their income from taxation than it does for high income taxpayers. A family earning \$25,000 or less, for example, will pay nothing in federal income taxes due to the standard deduction, where a family earning \$100,000 will pay taxes on \$75,000 of its income.

## PROPOSED REFORM

Transitioning to a flat tax rate on personal income filers accomplishes three things:

1. **Incentivizes Work.** A flat rate does not disincentive work like a progressive income tax does. A graduated income tax punishes work and success since the more an individual makes, the higher their tax rate will become. Disincentivizing work stunts economic growth.
2. **Encourages Fairness.** A flat rate income tax prevents the singling out of one particular group of earners and raising, or cutting, their taxes.
3. **Simplifies Compliance.** Progressive income taxes require a tax table and unnecessarily complicated calculations for taxpayers to determine what they owe. A flat rate income tax is simple to comply with and administer.

For the transition to a flat rate to work, **Oklahoma would also need to raise the standard deduction.** This will ensure that lower earners do not see a tax increase (and may even see a decrease). Pairing the flat rate of 4.75% with a standard deduction of \$10,350 pulls this off.

**Fiscal impact: A flat rate of 4.75% with a standard deduction of \$10,350 is revenue neutral.**