



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 racket or “progressive” income ta—like Oklahoma’s—subjects different income levels to different rates, introducing a 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 (\$7,000), the vast majority of most tax filers' income is subject to the top rate, 4.75%. Oklahoma's tax brackets include a marriage penalty because many breakers fail to double the income taxed for single and married-joint filers.

STANDARD DEDUCTIONS

Within the calculating their personal income taxes, most taxpayers utilize the standard deduction, which exempts the income taxpayers earn up to the amount of the deduction. Currently, the state standard deduction is \$6,350 for single filers and \$12,700 for taxpayers filing jointly. While federally, the standard deduction is \$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.

REFORM

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

1. A flat rate does not disincentives work like a progressive income tax does. A graduated income tax punished work and success since the more an individual makes, the higher their tax rate will become. Disincentivizing work stunts economic growth.
2. A flat rate income tax prevents the singling out one particular group of earners and raising, or cutting, their taxes.
3. A flat rate income tax does not penalize married couples filing jointly. By eliminating the graduated brackets, the marriage penalty phenomena is eliminated.

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.