

# Oklahoma's Sales Tax Relief Credit

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# Presentation Outline

- Overview of Oklahoma taxes, 50 state context
- Breakout of sales tax and its incidence
- The Oklahoma Sales Tax Relief Credit
  - Current structure
  - How it could be improved



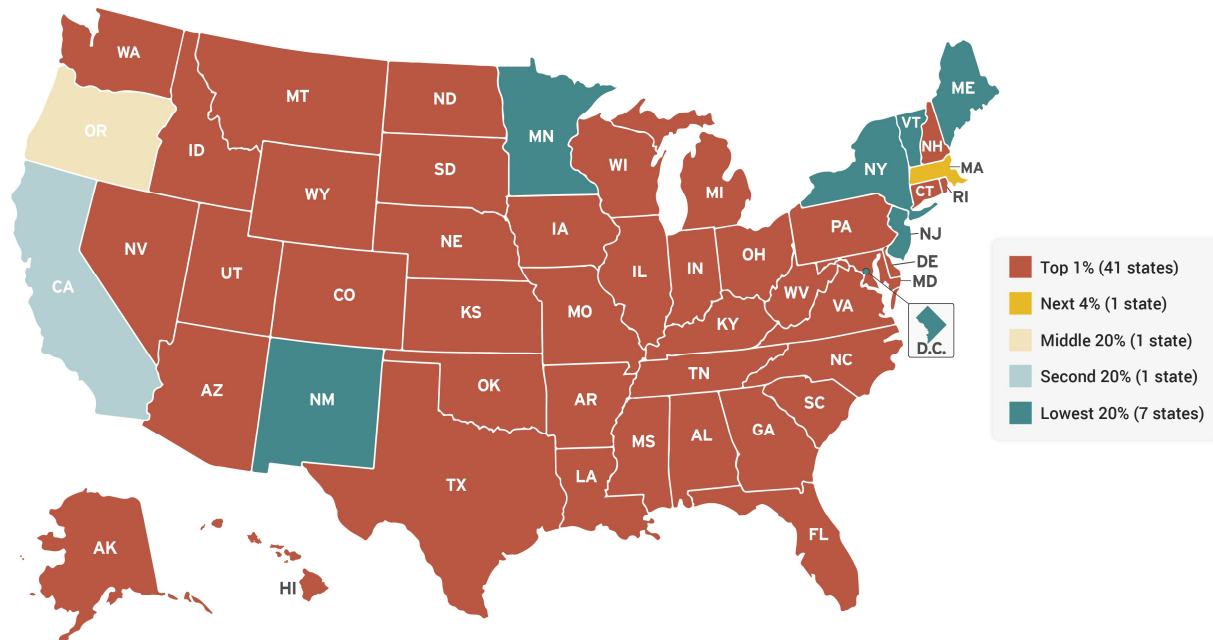
# The Institute on Taxation and Economic Policy studies taxes

- Founded in 1980
- Our *Who Pays? 7th Edition* builds on decades of modeling
- Work intensively across the country to model federal, state, and local tax changes

**Unfortunately, the vast majority of state and local tax systems are regressive, or upside-down.**

## The rich are the lowest-taxed group in most states.

The income group for whom state and local taxes, as a share of family income, are lowest



Source: Institute on Taxation and Economic Policy (ITEP)

ITEP | WhoPays?

# Oklahoma is no exception.

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Because of elimination of the state's grocery tax, Oklahoma has recently moved from 16<sup>th</sup> to the **19<sup>th</sup> most regressive** tax codes.

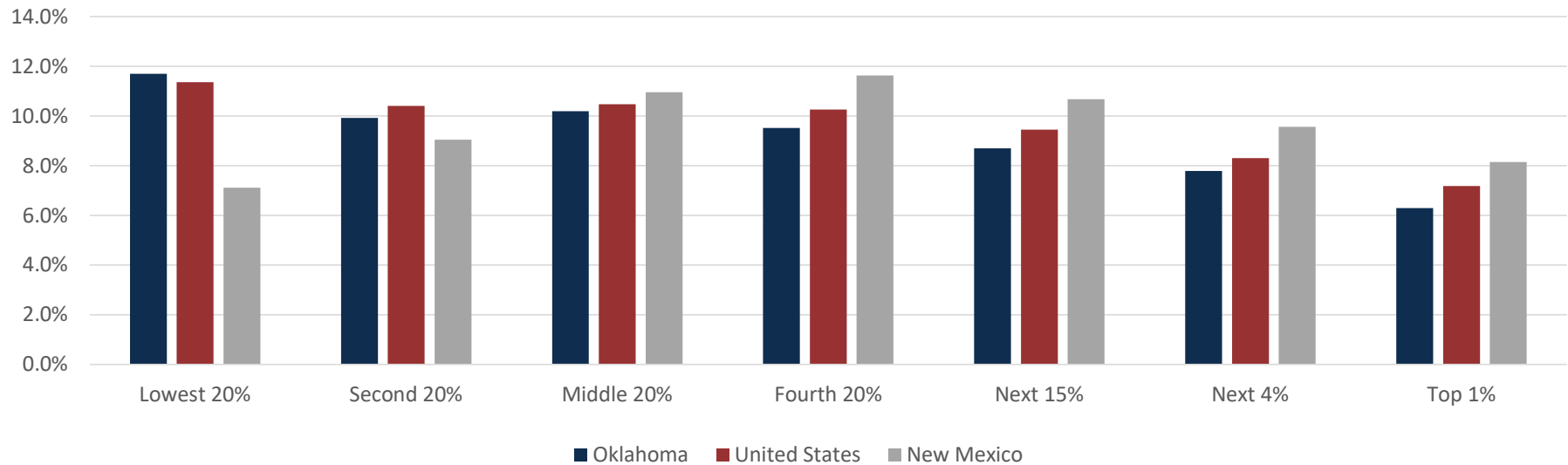
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Families in the bottom 20 percent of income pay almost twice as much as the highest 1 percent: **12.2** versus **6.3** percent.

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# Oklahoma state and local taxes are highest for working families and lowest for the rich.

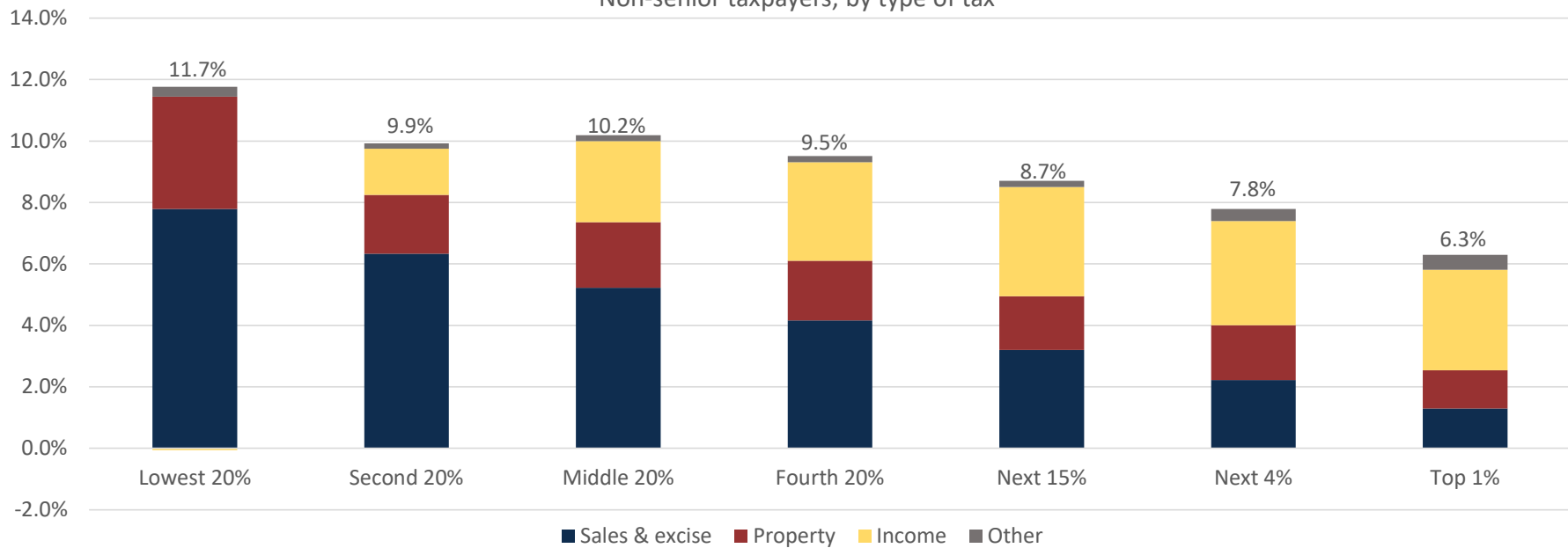
Oklahoma total state and local tax as a share of income  
Non-senior taxpayers



Source: Institute on Taxation and Economic Policies Who Pays? 7th Edition, updated to reflect sales tax changes.

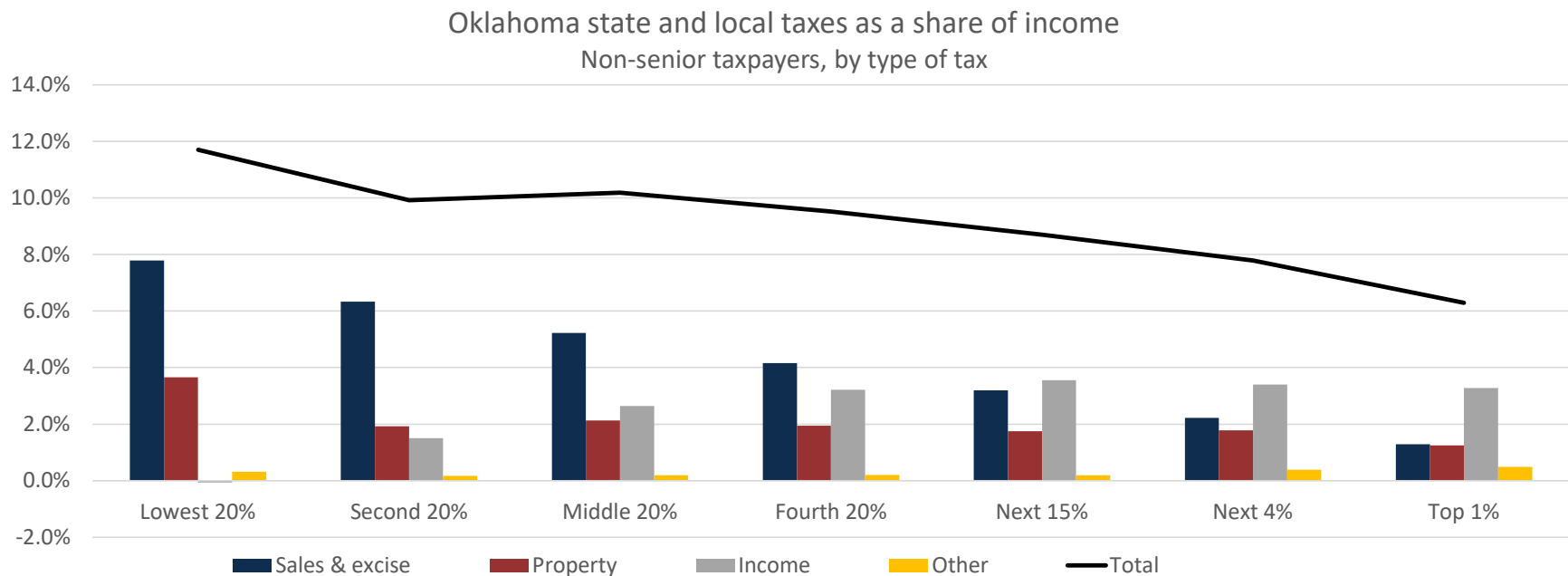
# Oklahoma's regressive tax code is driven by the sales tax

Oklahoma state and local tax as a share of income  
Non-senior taxpayers, by type of tax



Source: Institute on Taxation and Economic Policies Who Pays? 7th Edition, updated to reflect sales tax changes.

# Most Oklahoma families pay the highest portion of their income in sales and excise taxes.



Source: Institute on Taxation and Economic Policies Who Pays? 7th Edition, updated to reflect sales tax changes.



# Refundable tax credits play the critical role in lowering taxes for families with modest means

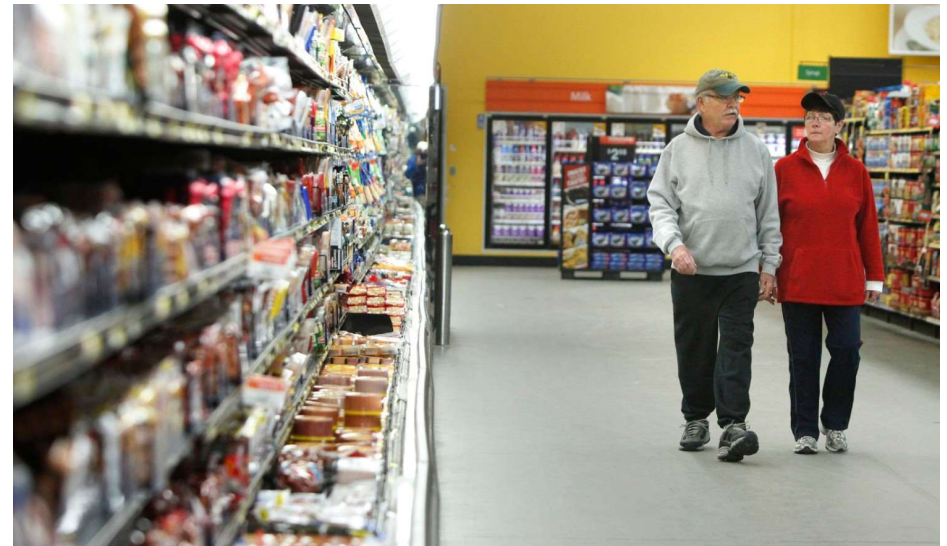
Credit	Total claims	Number of returns claiming credit	Target recipients
Sales Tax Relief Credit	\$28,619,000	357,684	Taxpayers with modest income
OK Refundable Earned Income Tax Credit	\$40,249,000	321,693	Taxpayers with modest income and children
OK Child Care/Child Tax Credit	\$42,559,000	352,998	Taxpayers with children

*Source: Oklahoma Tax Expenditure Report, 2023-34*

**The recipients of the Sales Tax Relief Credit are taxpayers with modest incomes paying the highest share of their incomes in sales and excise taxes.**

# Oklahoma's Sales Tax Relief Credit

- \$40 credit per personal exemption that is:
  - Fully refundable
  - Usually limited to earning \$20,000 or less
  - Expanded to those earning \$50,000 or less for families and seniors
- However, the credit does not increase with inflation, so the value erodes every year.



Oklahoma has strong examples from other states, as well as the opportunity to lead

Maine has a refundable Sales Tax Fairness Credit that ranges between \$140 and \$255 depending on family size.

- It phases out starting at about \$30,000 for single taxpayers and about \$60,000 for couples

New Mexico offers a Low-Income Comprehensive Tax Rebate worth up to about \$800 depending on family size.

- Steeply targeted; taxpayers earning more than about \$40,000 do not qualify

For about \$200M Oklahoma could expand the \$40 STRC and cut taxes for working families

2025 Income Distribution	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	\$13,700	\$34,800	\$61,100	\$103,900	\$176,100	\$399,600	\$1,777,100
<b>\$265 credit, with a phaseout</b>							
Tax Cut as % of Income	-1.67%	-0.61%	-0.09%	0.00%	0.00%	0.00%	0.00%
Average Tax Cut	-\$229	-\$213	-\$57	\$0	\$0	\$0	\$0

At the same cost to the state, a smaller credit could have a higher phaseout

2025 Income Distribution	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	\$13,700	\$34,800	\$61,100	\$103,900	\$176,100	\$399,600	\$1,777,100
<b>\$165 credit, with a higher threshold phaseout</b>							
Tax Cut as % of Income	-0.91%	-0.40%	-0.25%	-0.07%	0.00%	0.00%	0.00%
Average Tax Cut	-\$125	-\$141	-\$151	-\$69	\$0	\$0	\$0

Or, all Oklahomans could get a flat STRC, but the benefits would be concentrated at the top

2025 Income Distribution	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	\$13,700	\$34,800	\$61,100	\$103,900	\$176,100	\$399,600	\$1,777,100
<b>\$95 without phaseout</b>							
Tax Cut as % of Income	-0.44%	-0.21%	-0.17%	-0.12%	-0.08%	-0.04%	-0.01%
Average Tax Cut	-\$60	-\$73	-\$101	-\$128	-\$144	-\$153	-\$160

# Expanding the STRC would cut taxes for working families by offsetting the sales tax

2025 Income Distribution	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Average Income	\$13,700	\$34,800	\$61,100	\$103,900	\$176,100	\$399,600	\$1,777,100
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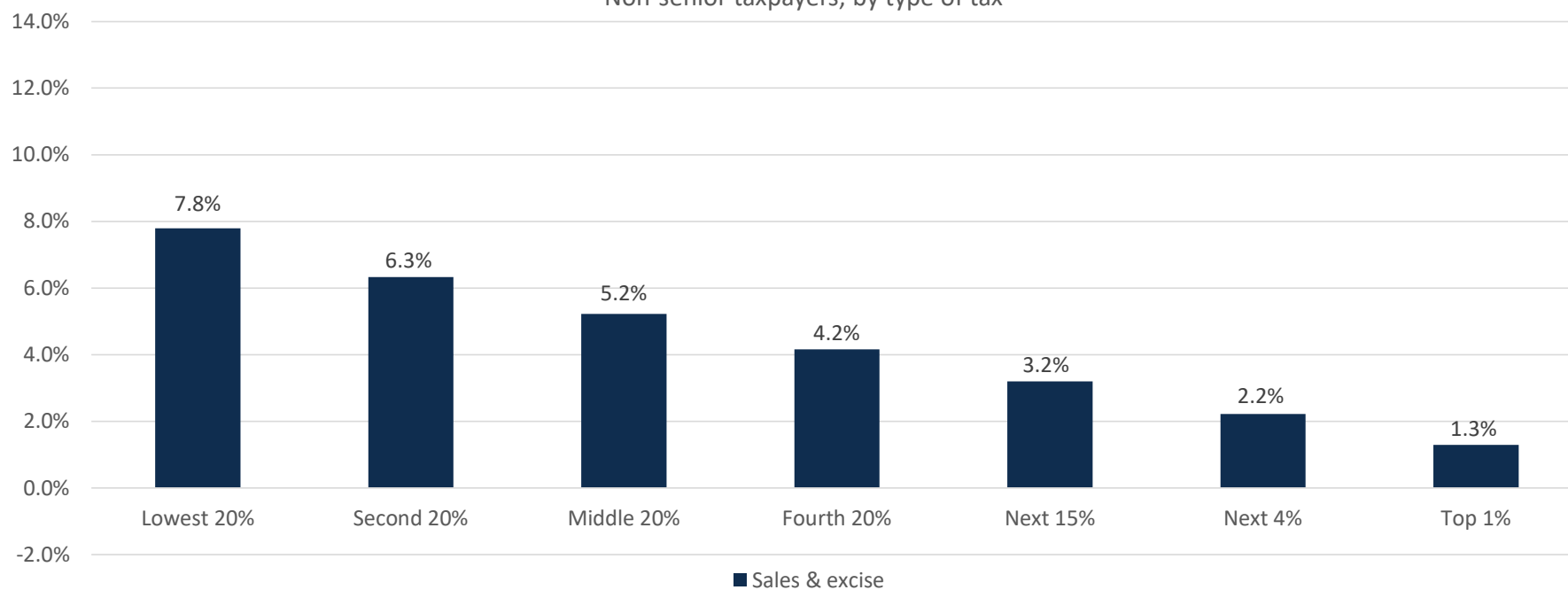
Total cost: **\$200M**  
regardless

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# Oklahoma's regressive tax code is driven by the sales tax

Oklahoma state and local taxes as a share of income  
Non-senior taxpayers, by type of tax

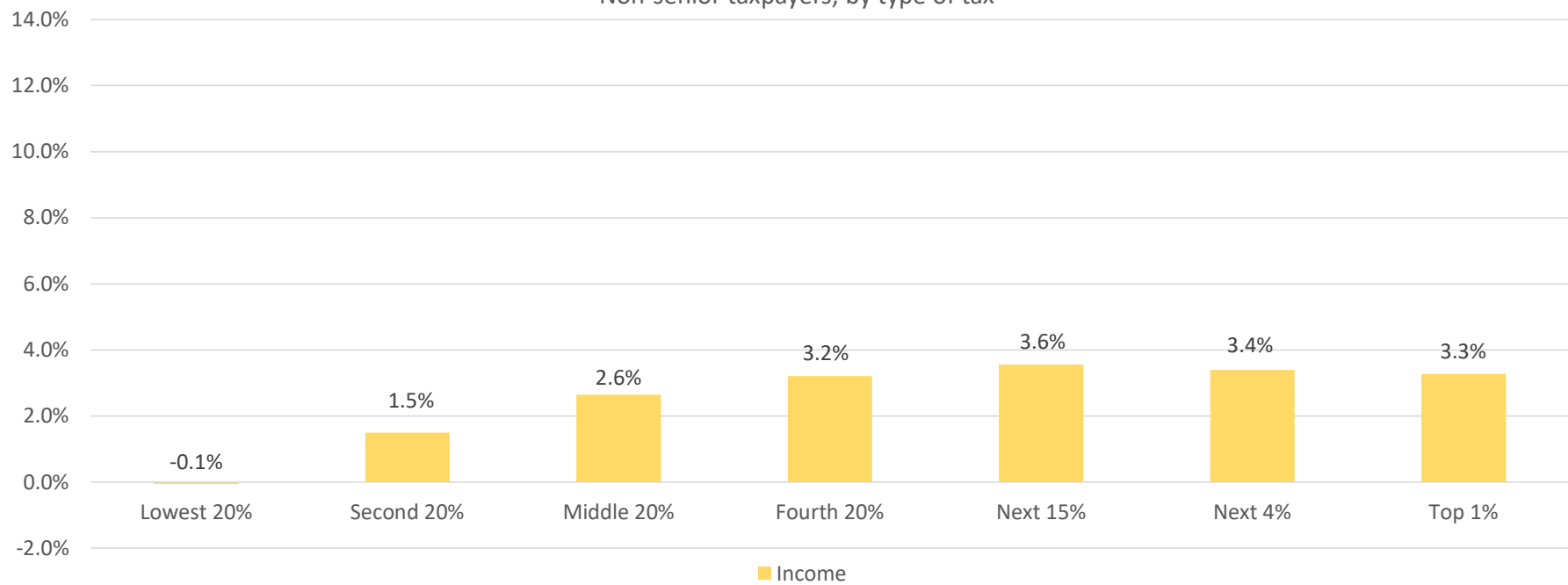


Source: Institute on Taxation and Economic Policies Who Pays? 7th Edition, updated to reflect sales tax changes.

**EB32** For answering questions/just in case  
Eli Byerly-Duke, 10/18/2024

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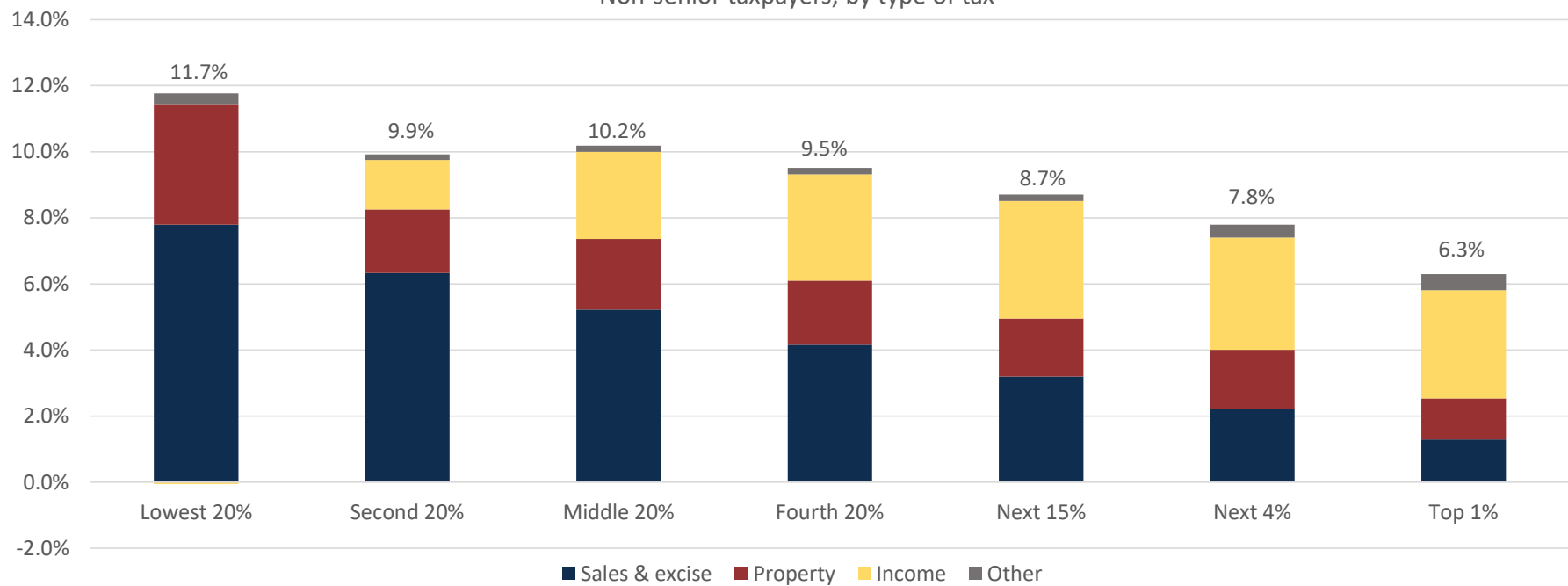
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# Oklahoma could expand the current \$40 STRC and cut taxes for working families

2025 Income	Detailed Income Distribution							Total
	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	All Residents
Income Range Start	Below	\$24,700	\$46,300	\$79,700	\$133,500	\$258,400	\$683,500	
Income Range End	\$24,700	\$46,300	\$79,700	\$133,500	\$258,400	\$683,500	And Above	
Average Income	\$13,700	\$34,800	\$61,100	\$103,900	\$176,100	\$399,600	\$1,777,100	\$101,200
<b>\$265 credit, with a phaseout</b>								<b>Total Tax Change (1000s): (\$202,000)</b>
Tax Change as % of Income	-1.67%	-0.61%	-0.09%	0.00%	0.00%	0.00%	0.00%	-0.10%
Average Tax Change	-\$229	-\$213	-\$57	\$0	\$0	\$0	\$0	-\$100
<b>\$165 credit, with a higher threshold phaseout</b>								<b>Total Tax Change (1000s): (\$196,000)</b>
Tax Change as % of Income	-0.91%	-0.40%	-0.25%	-0.07%	0.00%	0.00%	0.00%	-0.10%
Average Tax Change	-\$125	-\$141	-\$151	-\$69	\$0	\$0	\$0	-\$97
<b>\$95 without phaseout</b>								<b>Total Tax Change (1000s): (\$205,000)</b>
Tax Change as % of Income	-0.44%	-0.21%	-0.17%	-0.12%	-0.08%	-0.04%	-0.01%	-0.10%
Average Tax Change	-\$60	-\$73	-\$101	-\$128	-\$144	-\$153	-\$160	-\$101