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## Commentary: States Are Beginning to Turn the Tide on Taxes

By Nicholas Johnson

It took over 25 years, but lawmakers in Oklahoma have finally come around.

For three decades, rather than invest in schools and services to strengthen their communities, Oklahoma lawmakers directed that money to profitable corporations and well-connected individuals through multiple rounds of tax cuts. But last month, lawmakers — some of them recently elected — took a different course: they passed the state’s first tax increase in decades. The package, which raises about \$400 million and is paired with a long-overdue increase in teacher pay, doesn’t restore all the lost revenue from years of tax-cutting, and it falls short of what educators need. But it’s an important first step toward putting Oklahoma on the right track.

Oklahoma cut taxes sharply in the years before the Great Recession and continued to cut taxes even as revenues plummeted. The state started cutting personal income tax rates in 2004. The top income tax rate fell from 6.65 percent to 5 percent, with the latest drop taking effect in 2016 even as the state faced a \$1 billion shortfall. Oklahoma also sharply cut its severance tax on oil and gas, increased tax exemptions for retirement and military income, exempted capital gains income from taxation, and abolished the estate tax.<sup>1</sup>

All this tax cutting squeezed state general fund dollars — the amount available to lawmakers to fund schools and other state priorities — which have dropped by 35 percent as a share of personal income since 2006, the fourth-deepest decline in the country.

That’s made funding schools much harder. Oklahoma’s school system is the nation’s fifth-worst in providing adequate funding, according to the Education Law Center, which adjusted for enrollment, regional wage variations, and other factors that affect costs in different areas. And while most states have gradually restored the school funding they cut when the Great Recession hit, Oklahoma hasn’t even come close. “Formula” funding for schools (the main form of state funding)

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<sup>1</sup> Michael Leachman, “State Tax Cuts: A Key Factor in AZ, OK Teacher Pay Crises,” Center on Budget and Policy Priorities, March 26, 2018, <https://www.cbpp.org/blog/state-tax-cuts-a-key-factor-in-az-ok-teacher-pay-crises>.

is down 28 percent per student since the recession hit in the 2007-2008 school year, after adjusting for inflation.<sup>2</sup>

These cuts to school funding have made Oklahoma a less attractive place to live and do business. To prosper, businesses need well-educated workers, but deep education funding cuts weaken the future workforce by diminishing the quality of elementary and high schools. Funding constraints can harm teacher retention, lead to larger class sizes, and limit investments in high-quality early education. At a time when the nation is trying to produce workers with the skills to master new technologies and adapt to the complexities of a global economy, large cuts in funding for basic education undermine a crucial building block for future prosperity.

What happens next in Oklahoma is anyone's guess, but clearly, extreme anti-tax forces no longer have a stranglehold over the state capitol. And many leading Republican lawmakers have changed their rhetoric on taxes.

"We were cutting too far without all the facts," said state Rep. Leslie Osborn, who used her powerful perch as appropriations chair last year to advocate for restoring public investments. "Even as a Republican, we had gone too far and it was time to start investing again in Oklahoma and trying to right the ship."

Even Governor Mary Fallin, who proposed abolishing the state's income tax early in her tenure, has been talking about Oklahoma's structural deficit and advocating for new revenues.

"No more addressing long-term budget problems with short-term fixes," Fallin said in February as she endorsed the Step Up Oklahoma plan to raise new revenues. "We have two clear choices. We can continue down the road on the path of sliding backwards. Or we can choose a second path which is to say, 'Enough is enough. We can do better. We deserve better. Our children deserve better, too.'"

Of course, Oklahoma wasn't alone in embracing this tax-cuts-at-all-costs approach. And fortunately, Oklahoma isn't alone in starting to change course. Other states are acknowledging that they need adequate public revenues to pay for the public services and investments that help build strong state economies.

Take Kansas. Last year, a bipartisan coalition of lawmakers undid some of the worst of Governor Sam Brownback's 2012 and 2013 tax cuts for businesses and high-income Kansans. These cuts failed to deliver the "shot of adrenaline into the heart of the Kansas economy" that Brownback had promised; instead, they decimated state revenues and wreaked havoc on Kansas' ability to provide essential services. The state endured round after round of budget cuts before lawmakers last June passed a package rolling back some of the cuts with enough support to override Brownback's veto, generating hundreds of millions of dollars for schools.

Or West Virginia. After deep corporate tax cuts hamstrung state lawmakers' ability to adequately fund public schools, West Virginia teachers went on strike this winter for nearly two weeks to

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<sup>2</sup> Michael Leachman, Kathleen Masterson, and Eric Figueroa, "A Punishing Decade for School Funding," Center on Budget and Policy Priorities, November 29, 2017, <https://www.cbpp.org/research/state-budget-and-tax/a-punishing-decade-for-school-funding>.

protest low pay and rising health care costs. To end the strike, lawmakers agreed to increase public workers' pay by 5 percent and create a task force to address rising health care costs. Lawmakers haven't yet agreed to raise new revenues to fund schools or public employees' health care, but as the West Virginia Center on Budget and Policy notes, revenue-raising tax reform must be part of the mix as the state aims to meet its growing needs and address repeated budget crises.<sup>3</sup>

Or Arizona. Teachers there, among the lowest paid in the country, are on the verge of striking. Arizona cut personal income tax rates by 10 percent in 2006, cut corporate tax rates by 30 percent in 2011, reduced taxes on capital gains, and reduced taxes in other ways over the last couple of decades. The teachers and other leaders of the grassroots efforts in the state are calling for a raise and a restoration of school funding to pre-recession levels — and demanding that the state stop cutting taxes until Arizona's per-student spending equals the national average. (In fact, the state will probably have to reverse some past tax cuts to bring school spending up.) With elections just months away for the governor and all legislative seats, policymakers are listening.

Or New Jersey. Between 2010 and 2016, Garden State lawmakers passed large tax cuts — including cutting the top income tax rate and eliminating the estate tax — that disproportionately benefited the state's wealthiest families. Governor Phil Murphy, who took office this year, has proposed a budget that would reverse some of the most ill-advised tax cuts and use the new revenue to fully fund the state's school-aid formula, expand early childhood education, and restore funding cut from public transit and other services.

Not all states are moving in the right direction. In Kentucky, for example, lawmakers recently passed a bill that would raise revenue by shifting some taxes from wealthy Kentuckians and corporations to low- and middle-income families, according to the Kentucky Center for Economic Policy.<sup>4</sup> (What's more, the bill would likely lose revenue over the long term, partly by making the state more reliant on slower-growing consumption taxes instead of income taxes.) But in states like Oklahoma, Kansas, Arizona, and West Virginia, policymakers are realizing that there's more to taxes than political talking points, and that deep tax cuts for the wealthy and large corporations harm our ability to come together and create thriving communities and strong economies.

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<sup>3</sup> Ted Boettner, "Two Options for Addressing PEIA Revenue Shortfall," West Virginia Center on Budget & Policy, March 30, 2018, [http://www.wvpolicy.org/two\\_options\\_for\\_addressing\\_peia\\_revenue\\_shortfall](http://www.wvpolicy.org/two_options_for_addressing_peia_revenue_shortfall).

<sup>4</sup> Jason Bailey, "Tax Plan Is a Tax Shift with Troubling Long-Term Effect on Revenues," Kentucky Center for Economic Policy, April 2, 2018, <https://kypolicy.org/tax-plan-tax-shift-troubling-long-term-effect-revenues/>.