

## **The Frontier: Republican tax cut plans could eliminate \$100 million in Oklahoma education funding**

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Republicans say they won't allow plans to end corporate income taxes and lower personal income taxes in Oklahoma to cut into funding for education, but offer few concrete details on how money now dedicated for schools will be replaced.

Overall, about \$100 million in recurring, dedicated education funding could be eliminated over the next several years if the tax plans become law, according to figures from the state's Office of Management and Enterprise Services.

Oklahoma's House of Representatives approved plans on March 11 to completely phase out the state's corporate income tax over five years and lower the personal income tax for all income levels.

The corporate income tax generates over \$350 million a year on average for the state, and the personal income tax is slated to bring in well over \$3 billion for the next fiscal year.

House Bill 2083 would allow deductions to be used over the next five years to reduce the corporate income tax rate by 20 percent a year until it is phased out in 2026. House Bill 2041 would reduce individual income tax rates by a quarter of a percent through credits.

The plans would cut into funding state lawmakers dedicated to education in a landmark piece of legislation to end a teacher strike in 1990. The reforms created a dedicated pool of money intended to better fund schools in the state.

Appropriations for the Education Reform Revolving Fund, also known as the 1017 fund, topped \$1 billion for the 2021 fiscal year that started last July.

Corporate income taxes are projected to contribute nearly \$60 million to the 1017 fund by the end of the fiscal year, or about 5 percent of the funding. That funding stream would completely end if the tax is eventually phased out.

Personal income taxes are estimated to contribute over \$340 million to the 1017 fund next year. If income taxes are lowered, the fund could take another nearly \$16 million hit by 2023.

And the Teacher's Retirement Fund stands to lose an estimated \$24 million a year if corporate income taxes are phased out and personal income taxes are reduced, according to OMES.

The bills are a Republican-backed strategy to recruit more businesses to Oklahoma and broaden the state's taxpayer base, said House Speaker Charles McCall, R-Atoka, who wrote the bills. McCall believes the tax relief will generate enough new revenue to keep education funding whole.

McCall included language in House Bill 2083, the corporate income tax bill, saying the Legislature intends to put together a system that would "ensure" education revenues are not "adversely affected," but there currently is no concrete plan for shoring up the funding.

"I will not allow that fund to go backwards as a result of this bill if it passes," McCall said in an interview with *The Frontier*. "Education is a priority, and we want to continue to make strides."

Senate Pro Tem Greg Treat, R-OKC, said he hadn't looked through the bill yet, but echoed that he would not allow education funding to decline because of tax restructuring.

But without detailed plans already crafted, Oklahoma Education Association President Alicia Priest said it is "irresponsible" to cut education funding.

Priest pointed to data from the National Education Association that currently puts Oklahoma schools 49th nationally in per pupil spending.

"If we're trying to attract new business, how well we invest in public education will be a deciding factor," she said.

Senate Minority Leader Kay Floyd, D-OKC, would also like to see detailed plans before voting on the measure.

"We need to see the plan and see exactly how this is going to work in real time, not just commitments and promises," she said.

When asked if there were any concerns, a Department of Education spokeswoman pointed back to the promise of protecting education funding in the bill and didn't provide further comment.

McCall said he sees two ways to address the education funding: Lawmakers can increase the general appropriations they make to the state's Education Department every year, or they could find another tax stream — he mentioned redirecting a portion of existing sales tax revenue — and dedicate it to education.

"At the end of the day, we are not going to let education erode," he said.

McCall's bills, if approved, will be an eventual decline of over \$500 million in existing yearly revenue that lawmakers hope will be restored through economic growth.

This move comes three years after lawmakers raised taxes on oil and gas production, cigarettes and fuel to afford roughly \$531 million in teacher pay raises and other educational expenses following the state's historic teacher walkouts in 2018.

Still, lawmakers supporting the bills say the timing is right.

As the pandemic begins to wane and the economy starts to ramp up, businesses may be looking to relocate, lawmakers say. Oklahoma's officials want to capitalize on that opportunity. And the state's economy is already doing better than most, allowing lawmakers a \$1 billion budget surplus this year.

Plus, they say, the corporate income tax is a volatile, unreliable revenue stream. It's a 6 percent tax that accounts for roughly 4 percent of the state's general revenue. The \$350 million a year on average in taxes that it brings in has been called "insignificant" compared to the state's \$9.6 billion budget.

Democratic lawmakers and some policy analysts say the move is over-hopeful and hasn't been vetted thoroughly in the public discourse.

And Sen. Floyd said she doesn't view over \$350 million as insignificant when lawmakers are still sorting through the COVID-19 pandemic and trying to fund Medicaid expansion mandated by voters, which has a \$160-million price tag many conservative lawmakers have balked at.

Paul Shinn, a budget and tax analyst with the left-leaning think tank Oklahoma Policy Institute, believes phasing out the corporate income tax will probably not increase the state's revenue.

The state's budget is doing well now, Shinn said, but he attributes that to one-time savings and billions of dollars in COVID-19 relief from the federal government, such as unemployment benefits, stimulus checks and direct payments to the state.

"The economy is on what can only be called a sugar high," Shinn said. "Without those things, we'd be in a much different position and you'd never even have a discussion about whether you're cutting revenues."

In a speech on the House floor to garner support for the plan, McCall said the cuts would grow Oklahoma's economy and new revenues would "exceed any loss, without doubt."

McCall said businesses are leaving the state or passing over Oklahoma to go to places like Texas, where there is no corporate income tax. He also added that when Oklahoma has cut personal income taxes in the past, those revenue streams have eventually grown.

"I think what we all agree on is that we want there to be funding for core services. And I think these bills will provide that path," he said.

Data and studies, some from the libertarian think-tank the Cato Institute and the Tax Foundation, provided by McCall's office point to years-long trends of businesses and individuals moving to low-tax states, which has been amplified by the pandemic and the option of remote working.

But the studies also noted that taxes are only one of many factors — one usually considered by those with wealth — that entice businesses or people to move, an argument that Democrats made while debating the bill on the House floor.

"The most recent major economic development attempt that we tried to get, Tesla, do you not remember the reason why they chose not to be here?" asked Rep. Meloyde Blancett, D-Tulsa. "It wasn't a tax issue for them. It was they polled their engineers, and their engineers simply did not want to live here."

McCall said he fully believes the corporate income tax is what keeps the economy from growing and that increasing the amount of disposable income individuals have is what will increase quality of life.

While Democrats voted against the corporate income tax bill, there was bipartisan support for lowering the personal income tax. This is mainly because the Earned Income Tax Credit will be restored, a longtime Democratic priority in the state.

If corporate incomes taxes are phased out, next year the state would have over \$30 million less to appropriate. In 2023, it would have \$100 million less to appropriate, according to a House press release.

If personal income taxes are lowered, the state would have roughly \$70 million less next year and \$180 million less in 2023.

“We have taken this hopeful approach before,” Shinn said, pointing to the tax cuts that preceded and, he says, eventually led to the teacher walkouts. “I feel like I’ve seen this movie before. And I don’t like the ending.”

House Appropriations and Budget Chairman Kevin Wallace, R-Wellston, noted that the legislation, since it uses deductions rather than tax cuts, will allow future lawmakers to stop or pause the changes by a simple majority vote rather than the super majority that is usually necessary to raise taxes.

“If it doesn’t work out, 51 votes can stop it,” Wallace told fellow lawmakers.