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AN ANALYSIS OF ALTERNATIVE METHODS OF INCREASING

STATE TAX REVENUE IN OKLAHOMA

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TABLE OF CONTENTS

Table of Contents--Continued

LIST OF TABLES

List of Tables--Continued

List of Tables--Continued

List of Tables--Continued

List of Tables--Continued

List of Tables--Continued

AN ANALYSIS OF ALTERNATIVE METHODS OF INCREASING STATE TAX REVENUE IN OKLAHOMA

CHAPTER I

INTRODUCTION

Nature and Scope

State expenditures, and state revenues, for the entire nation have risen steadily during the past three or four decades. Most predictions by those groups and individuals involved in studying the problems of state government finance are for continued increases in the level of state governments' expenditures for the next decade at least.[1] Oklahoma has displayed a historical tendency to increase state expenditures along with the other states of the nation, and there appears to be nothing unique about the state of Oklahoma that would suggest Oklahoma might deviate from the general trend in the future. Therefore, if the general trend is for these expenditures to rise, as the predictions indicate, it appears quite probable that state expenditures in Oklahoma will also experience an increase.

Any sharp increase, or perhaps even a moderate increase, in the demand for public services provided by the State of Oklahoma would

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[1]See, for example, Tax Foundation's Fiscal Outlook for State and Local Government to 1975, 1966.

create a serious revenue problem for the state. If the people of Oklahoma, acting through their elected representatives, should indicate a growing demand for services in greater quantity, and/or of improved quality, the state, in turn, would be forced to make demands upon the people of the state for additional amounts of revenue required to supply the additional or improved services.

In the search for sources of additional revenue, the State of Oklahoma will ultimately be forced to accept the prospect of obtaining the needed revenue through increased taxation, that is, assuming the revenue requirement is greater than the "normal" increase in state tax revenue that could be expected as a result of increased bases of such taxes as the sales and income taxes due to increased economic activity and population growth. No doubt the additional tax revenue due to "normal" economic growth would approximately be equal to that amount needed to prevent deterioration in the standard and scope of services presently provided by the state as the population of the state increases, with little remaining for expanding the scope or quality of services.

The outlook, given the desire to expand significantly the scope and quality of services by the state government in Oklahoma, is that Oklahoma very likely will have to raise the additional revenue needed to support the increased level of expenditures by either: (1) increasing the rates of taxes currently being used by the State of Oklahoma; (2) enlarging the bases, where possible, of taxes currently being used; or (3) adopting a "new" tax not currently being used by the State of Oklahoma (if such a tax exists). Naturally, there is the very real

possibility of a combination of several of these alternatives.

A decision to obtain greater tax revenue will require a rational approach to answering the question: How can Oklahoma's state tax revenue be significantly increased without placing Oklahoma at a tax disadvantage with respect to the other states in Oklahoma's general region of the nation (which might result if tax rates should become significantly higher in Oklahoma than in the other regional states)? The purpose of this study is to provide information that will facilitate an objective answer to this question. This will be done by estimating the amounts of potential tax revenue available to the State of Oklahoma through several alternative revisions in certain major state taxes--revisions which will have minimal repressive effects on the economic growth and development of the State of Oklahoma.

Numerous possible alternatives for increasing state tax revenue in Oklahoma no doubt exist. Each political and economic interest group of the state appears to have a different proposal designed to produce additional tax revenue for the state, generally at the expense of individuals and groups other than the interested party. An analysis of all the alternatives for increasing tax revenue, even considering only the most rational alternatives, would be a momentous undertaking requiring enormous amounts of time, research, data, and clerical aid. The financial requirement alone for such a project would be prohibitive to an individual researcher. Therefore, rather than attempting an analysis of all possible alternatives for tax revisions in Oklahoma, this study will be limited to consideration of only selected alternative revisions in certain major taxes. The selection of the taxes to be included in

the analysis will be based primarily on revenue potential, and to some extent, on the availability of data facilitating the estimation of amounts of additional revenue each revision would be expected to produce.

Basically, this analysis is an economic feasibility study rather than a political feasibility study. The main objective is to determine the amounts of potential revenue available to the state from alternative revisions in selected taxes, not to determine whether such revisions are politically acceptable. Enphasis throughout the study is upon revenue productivity with very little attention paid to the problem of tax equity and the incidence of the tax burden in Oklahoma. An underlying assumption is that the people of Oklahoma are willing to accept heavier taxes in return for increases and improvements in public services, and wish to know which type of tax revision offers the greatest amount of additional revenue, within the limitation of preventing Oklahoma's tax structure from becoming a disadvantage from the standpoint of regional economic development. In view of the economic nature of this study, concern with statutorial limitations for each type of tax is minimized; however, such constitutional limitations or restrictions that might exist are observed.

In considering each alternative tax revision, the major characteristics of the Oklahoma tax, such as rates, base, and exemptions, are compared with corresponding characteristics of the tax as it appears in several other states. In view of the recent surge of interest in regional development, the states used in such comparisons are those occupying the same general geographical region as Oklahoma, and are

referred to in the study as the "regional" group of states. In several instances, certain features of Oklahoma's tax program are compared with those of all states in the nation, particularly where the tax effort is concerned. With one exception the states included in the regional group, other than Oklahoma, are those states sharing a common border with Oklahoma: Arkansas, Texas, New Mexico, Colorado, Kansas, and Missouri. Louisiana does not share a common border with Oklahoma, but due to the proximity of Louisiana to Oklahoma and the fact that Louisiana is a major oil producing state, as is Oklahoma, Louisiana was included in the regional group.

For purposes of estimating the additional tax revenue expected to be forthcoming upon the adoption of each tax revision, data for a specific time period had to be used. Generally, the data used in the study are for fiscal year 1965, due to the availability of relevant data for that particular year. Where data for a more recent year are available, they are used. In some instances, data are available for only certain years preceeding 1965, in which case the most recent year's data are selected. No attempt is made to predict the increase in 1967 or 1968 revenue such tax changes would be expected to produce.

Format

In Chapter II, the current sources of revenue for the State of Oklahoma are surveyed in order to select the taxes to be studied for revisions leading to increased tax revenues. Data used in this chapter are mostly for 1965, although some data for previous years were also used. Information resulting from this survey of current sources of

revenue lead to the selection of the income tax, the general sales tax, and the severance or pross production tax to be studied for possible alternative revisions.

In Chapter III, the current Oklahoma state tax burden is examined to determine whether the Oklahoma economy is presently bearing a relatively heavy tax load. The burden or impact of paying state taxes in Oklahoma is compared with similar burdens in the other regional states. The analysis of the relative tax burden also involves comparisons of state and local tax burdens combined in Oklahoma and the regional states. Several methods of computing the tax burden are used, including several indexes of tax effort.

The topic of Chapter IV is possible improvements in Oklahoma's income tax in terms of increasing the amount of revenue produced. Emphasis is placed on the individual or personal income tax, but consideration is also given to changes in the corporate income tax. In this chapter, the structure of Oklahoma's income tax is compared with the structures of income taxes in those other regional states levying income taxes. The expected increases in income tax revenue are estimated, assuming the adoption of several changes in the tax rates, base, and exemptions.

The possibility of increasing the revenue productivity of the Oklahoma general retail sales tax is examined in Chapter V. The Oklahoma sales tax is compared with the general sales taxes of other regional states with respect to rates, base, and exemptions. Additional amounts of revenue produced by selected changes in the rates and base, including the taxation of services, are estimated.

Several of the regional states receive a significant portion of their total tax revenues from a gross production or severance tax levied on extractive industries. Oklahoma levies such a tax, and in 1965 obtained about 10 per cent of total state tax revenue from it. Chapter VI entails a study of the possibility of increasing the tax revenue produced by the gross production tax, and estimates of the amounts of additional revenue it would be possible to expect from selected changes in the tax are made.

Although the property tax in Oklahoma is a revenue tool of the local governments, rather than of the state, these local governments are quite dependent upon the state intergovernmental expenditures for supplemental revenue. The property tax revenue received by the local governments in Oklahoma accounts for by far the greatest percentage of total local government tax revenue. Therefore, it is deemed justifiable to study the possibility of increasing the productivity of the general property tax in Oklahoma in this research project. An increase in the productivity of the property tax would mean additional revenue for the local governments, and in turn, would relieve the state government of the fiscal responsibility of rendering partial support of local governmental functions. Those state funds currently going to local governments could then be allocated to various state functions, thus in effect, increasing the amount of state revenue.

In Chapter VII, several changes in the assessment and exemptions of the property tax in Oklahoma are studied for their effects on the amount of revenue produced by the property tax. The amounts of additional revenue are estimated for each proposed change in the property tax.

The results of this research are summarized in Chapter VIII. In addition, recommendations are made based upon the estimates of additional revenue from the tax changes mentioned above.

Primary Sources of Data

Data for tables in Chapter II, concerning the present revenue structure for the State of Oklahoma come primarily from two sources: The Compendium of State Government Finances, published by the United States Bureau of Census, and the biennial reports of the Oklahoma Tax Commission, especially the Seventeenth Biennial Report.

Data for the computation of Oklahoma's relative tax burden in Chapter III come from the Survey of Current Business, Facts and Figures on Government Finances, the Statistical Abstract of the United States, and Sales Management.

Unpublished data on income tax returns categorized by amount of tax liability furnished by the Income Tax Division of the Oklahoma Tax Commission provide the basis for most of the computations for the tables in Chapter IV. The Prentice-Hall Tax Guide for state and local governments is an important source of information relating to the tax structures of the regional group of states.

Estimations of increased sales tax revenue in Chapter V are based partly on data published by the Sales Tax Division of the Oklahoma Tax Commission, and partly on data in publications mentioned above.

In addition to several of the above listed sources of data, the Minerals Yearbook, published by the Bureau of Mines, is an important source of data for Chapter VI, which deals with the gross production tax revenue.

Valuable data relating to the property tax in Oklahoma for Chapter VII were furnished in unpublished form by the Ad Valorem Division of the Oklahoma Tax Commission. The files of the State Board of Equalization provided an equally important source of data on the property tax rates and values of homestead exemptions, especially in municipalities.

Naturally, the Oklahoma Constitution and Oklahoma Statutes were consulted frequently, as were also many secondary sources of information. Several other studies provided basic ideas for this study.

CHAPTER II

CURRENT SOURCES OF OKLAHOMA STATE REVENUE

The objective of this chapter is review the current revenue sources for the state of Oklahoma in order to determine which types of taxes used by state governments offer greater potential for producing more tax revenue. Immediate attention is focused on answering the following questions pertaining to sources of Oklahoma state revenue. Which sources of Oklahoma state revenue are relatively highly productive, and which ones are relatively unproductive? How dependent is the state financially upon tax revenue relative to non-tax revenue? Are some types of taxes being over-utilized while other types of taxes are being under-utilized? In general, how does the Oklahoma revenue structure, and the relative importance of the components of that structure, compare with the revenue structures of the other seven regional states: Arkansas, Louisiana, Texas, New Mexico, Colorado, Kansas, and Missouri? Are any of these states receiving significant amounts of revenue from tax sources other than those being used by the State of Oklahoma? Are any of these states receiving significant amounts of revenue from taxes currently being used lightly by Oklahoma? Answers to these questions should give some indication as to which sources of tax revenue offer the greatest potential for increasing Oklahoma's state tax revenue.

Total Oklahoma State Revenue

Total state revenue is defined as "...all amounts of money received by a state government from external sources--net of refunds and other correcting transactions--other than from issuance of debt, liquidation of investments, and as agency and private trust transactions."[1] Total revenue for the State of Oklahoma amounted to $329 million in fiscal year 1955, and rose to almost $673 million in 1965, with no corrections for changes in the purchasing power of the dollar due to fluctuations in the price level. An increase in total Oklahoma state revenue was reported for almost every year throughout the period, with only one exception. In 1960, total revenue fell to $457 million from the $491 million recorded for 1959. In 1961, however, total revenue rose by a sufficient amount to more than offset the effect of the 1960 decline (see Table 1).

Total Oklahoma state expenditures, defined as "...all amounts of money paid out by a government--net of recoveries and other correcting transactions--other than for retirement of debt, investment in securities, extension of credit or as agency transactions,"[2] exhibited an equally active expansion during the same time period, rising from $328 million in 1955 to $680 million in 1965. Expenditures, as did revenues, declined only once during the eleven-year period. The decline in state

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[1]U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1965, U. S. Government Printing Office, p. 58.

[2]Ibid., p. 53.

Table 1

Total State Revenue and Total State Expenditures for Oklahoma, Annually, 1955-1965

Fiscal Year	Total Revenue	Total Expenditures (Thousands of Dollars)	Deficit or Surplus
1955	$329,440	$328,234	$ 1,206
1956	359,201	380,825	-21,624
1957	389,592	404,775	-15,183
1958	428,442	432,667	-4,225
1959	479,962	471,396	8,566
1960	471,373	457,316	14,057
1961	508,902	499,788	8,114
1962	550,098	523,327	26,771
1963	587,054	609,065	-22,011
1964	637,193	678,218	-41,025
1965	672,649	679,712	-7,063

Source: U. S. Bureau of Census, The Compendium of State Government Finances (1955-1965)

expenditures occurred in the same fiscal year--1960--as the decline in total state revenue.

State expenditures exceeded state revenue in Oklahoma during six of the eleven years of the selected time period 1955-1965. These deficits occurred during two separate three-year periods: 1956-1957-1958, and 1963-1964-1965. The largest annual deficit was reported in fiscal year 1964 when the state's expenditures exceeded the state's revenue by some $40 million. As the record indicates, state expenditures in Oklahoma during recent years exhibited a marked tendency to expand along with state revenue, and to exceed state revenue rather frequently.

The Compendium of State Government Finances, an annual publication of the U. S. Bureau of the Census, categorizes total state revenue from three principal sources: funds from general revenue, liquor stores, and insurance trust funds. Oklahoma has no state owned liquor stores, nor do any of the seven other regional states. Insurance trust revenue is revenue from contributions required of employers and employees for financing social insurance programs operated by the state and earnings on assets held for such systems.[3] Inasmuch as these funds are not available for state general expenditures, nor for any other purpose other than the designated one, the sources of general revenue are the relevant subjects of inquiry.

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[3] Ibid., p. 54.

Sources of Oklahoma General Revenue

As shown in Table 2, the major portion of Oklahoma's total state revenue is classified as general revenue. General revenue is defined simply as "...all state revenue except liquor store revenue and insurance trust revenue."[4]

In fiscal year 1955, general revenue accounted for 95.7 per cent of total Oklahoma state revenue; 95.5 per cent in fiscal year 1960; and 95.0 per cent in fiscal year 1965 (see Table 3). Thus the relationship between general revenue and total state revenue appears to have been quite stable during recent years. Between 1955 and 1960, total revenue increased 43.1 per cent, while general revenue rose by 42.8 per cent. Percentage increases between 1960 and 1965 were only slightly less for both general revenue and total state revenue than in the previous five-year period, 1955-1960. For the entire period, 1955-1965, total state revenue for Oklahoma rose 104.2 per cent, as compared to an increase of 102.8 per cent in general revenue (see Table 4).

The general revenue of a state government is derived from three major sources: (1) taxes; (2) inter-governmental revenue (from both federal and local governments); and (3) charges and miscellaneous sources. Taxes, as defined by the Census Bureau,[5] are compulsory contributions exacted by a government for public purposes, except employee and employer assessments for retirement and social insurance purposes.

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[4] Ibid.

[5] Ibid., p. 55.

Table 2

Oklahoma Total State Revenue by Source, Annually, 1955-1965

Fiscal Year	Total State Revenue	General Revenue	Insurance Trust
	(Thousands of dollars)		
1955	$329,440	$315,179	$14,261
1956	359,201	343,455	15,746
1957	389,592	370,846	18,746
1958	428,442	410,070	18,372
1959	479,962	461,641	18,321
1960	471,373	450,064	21,309
1961	508,902	484,825	24,077
1962	550,198	521,712	28,486
1963	587,054	554,723	32,331
1964	637,193	603,235	33,958
1965	672,649	639,274	33,375

Source: U. S. Bureau of Census, Compendium of State Government Finances (1955-1965).

Table 3

Oklahoma General Revenue as a Percentage of Total State Revenue, Selected Years

Fiscal Year	General Revenue as Percentage of Total Revenue
1955	95.7%
1960	95.5
1965	95.0

Source: Calculated from data in Table 2.

Table 4

Percentage Increase in Total Revenue and General Revenue for Oklahoma, Selected Time Periods

Time Period	Percentage Increase in Total Revenue	Percentage Increase in General Revenue
	(Percentages)	
1955-1960	43.1%	42.8%
1960-1965	42.7	42.0
1955-1965	104.2	102.8

Source: Calculated from data in Table 2.

Intergovernmental revenue is defined as the amounts received from other governments as fiscal aid or as reimbursement for the performance of general government services for the paying government.[6] Charges and miscellaneous sources revenue includes that revenue received by the state from charges by state owned and operated institutions and service agencies, as well as all other general revenue which cannot be classified as either tax revenue or intergovernmental revenue.[7]

In fiscal year 1955, Oklahoma received 66.8 per cent of total general revenue from various kinds of taxes; 23.1 per cent from intergovernmental revenue; and 10.2 per cent from charges and miscellaneous sources. In fiscal year 1960, tax revenue as a source of general revenue had dropped in relative importance, accounting for 61.2 per cent of Oklahoma's total general revenue. On the other hand, intergovernmental revenue in 1960 had risen to 27.2 per cent of total general revenue, while revenue from charges and miscellaneous sources provided 11.6 per cent of the total. The trend of declining importance of tax revenue, expressed as a percentage of general revenue, continued through 1965. In fiscal year 1965, 55.9 per cent of general revenue for Oklahoma came from tax revenue; 30.1 per cent of general revenue came from intergovernmental revenue; and the remaining 14.0 per cent was provided by revenue from charges and miscellaneous sources (see Table 6).

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[6] Ibid.

[7] Ibid.

Table 5

Oklahoma General Revenue by Source, Annually, 1955-1965

Fiscal Year	Total General Revenue	Tax Revenue	Intergovernmental Revenue			Charges and Miscellaneous
			Total	Federal	Local	
	(Thousands of dollars)					
1955	$315,179	$210,434	$ 72,710	$ 71,979	$ 731	$32,035
1956	343,455	229,642	77,138	75,820	1,318	36,675
1957	370,846	235,720	88,003	86,486	1,517	47,123
1958	410,070	246,491	117,915	115,662	2,253	45,664
1959	461,641	256,326	156,723	154,318	2,405	48,592
1960	450,064	275,379	122,528	121,113	1,415	52,157
1961	484,825	285,150	145,732	144,887	845	53,943
1962	521,712	307,881	151,341	148,724	2,617	62,490
1963	554,723	321,917	163,038	161,544	1,494	69,768
1964	603,235	332,257	189,717	188,487	1,230	81,261
1965	639,274	357,571	192,352	190,772	1,580	89,351

Source: U. S. Bureau of Census, Compendium of State Government Finances (1955-1965).

Table 6

Percentage Distribution of Oklahoma General Revenue by Source for Selected Years

Fiscal	Total General Revenue	Tax Revenue	Intergovernmental Revenue	Charges and Miscellaneous
		(Percentages)		
1955	100.0%	66.8%	23.1%	10.2%
1960	100.0	61.2	27.2	11.6
1965	100.0	55.9	30.1	14.0

Source: Calculated from data in Table 5.

The drop in relative importance of taxes as a source of general revenue certainly did not indicate a decline in tax collections. On the contrary, data presented in Table 5 indicate that Oklahoma state revenue from taxes increased from $210,434,000 in 1955 to $357,571,000 in 1965, an increase of 69.9 per cent. The percentage change in tax revenue was approximately the same for the first half of the time period (1955-1960) as for the second half (1960-1965). However, revenues from intergovernmental sources and from charges and miscellaneous sources rose at a faster pace than tax revenue. With reference to Table 7, intergovernmental revenue was 164.5 per cent greater than in 1955. Revenue from charges and miscellaneous sources was 178.9 per cent higher in 1965 than in 1955. The growth in intergovernmental revenue, percentagewise, was somewhat greater in the first half of the period (1955-1960) than in the second half, while just the reverse was true for revenue from charges and miscellaneous sources.

Thus the trend appears to have been one of rather diminishing importance for tax revenue relative to revenue provided by other levels of governments and from charges and miscellaneous sources. Although at the end of the period (1965) tax revenue alone represented more than half of all general revenue for Oklahoma, the combined absolute increase in revenue from intergovernmental sources and from charges and miscellaneous sources was greater than the absolute increase in tax revenue. Tax collections in 1965 were greater than in 1955 by some $147 million. Revenue from intergovernmental sources was $120 million greater in 1965 than in 1955, while revenue from charges and miscellaneous sources was $57 million higher, for a combined increase of $177

Table 7

Percentage Change in General Revenue by Source for Oklahoma, Selected Time Periods

Time Period	Percentage Change in Tax Revenue	Percentage Change in Intergovernmental Revenue (Percentages)	Percentage Change in Charges and Miscellaneous
1955-1960	+ 30.9%	+ 69.8%	+ 62.8%
1960-1965	+ 29.8	+ 60.0	+ 71.3
1955-1965	+ 69.9	+ 64.5	+ 178.9

Source: Calculated from data in Table 5.

million in 1965 over 1966.

Intergovernmental Revenue

An analysis of the relatively large amounts of Oklahoma's intergovernmental revenue reveals that most of this revenue originated with the federal government, and that almost all the increase in this revenue was directly due to an increased flow of federal aid to Oklahoma. Oklahoma received almost $72 million from the federal government in fiscal year 1955. By fiscal year 1965, the amount of federal money received by Oklahoma had risen approximately $191 million, an increase of $119 million. Receipt of federal money alone in 1965 accounted for 29.8 per cent of Oklahoma's general revenue for that year.

Relevant at this point is a digression into the nature of fiscal aid to the State of Oklahoma from federal sources. States receive fairly large sums from the federal government in partial support of highways, education, public welfare, and health and hospitals, plus a number of other public projects or programs. As reported in the Compendium of State Government Finances, the federal aid to states is categorized as aid to "Highways", "Education", "Public Welfare", "Health and Hospitals", and other diverse functions receiving federal funds lumped together in a general category simply labeled "Other."

Oklahoma received the greatest amount of federal funds in 1955 in the "Public Welfare" category. More than $50 million was received by Oklahoma that year from the federal government for welfare program support. That amount represented 69.8 per cent of all federal aid to Oklahoma for fiscal year 1955. Highway aid accounted for the second

largest amount of federal funds--approximately 15.8 per cent of Oklahoma's federal financial aid in 1955 went to the "Highways" category. Of the remaining 14.4 per cent, "Health and Hospitals" received 2.5 per cent; and the category "Other" accounted for the remainder (see Tables 8 and 9).

By 1965, the relative percentage distribution of federal grants to the State of Oklahoma had been altered somewhat, primarily with respect to the percentages of federal aid received by the categories "Highways", "Education", and "Public Welfare." The category "Public Welfare" accounted for only 47.6 per cent of total federal aid to Oklahoma in 1965; "Highways" received 30.1 per cent; and "Education" was the recipient of 13.5 per cent of the total federal intergovernmental revenue to Oklahoma.

The changing percentage distribution reflects a relative shift, not an absolute decline in any of the categories. In reality, just the opposite occurred. Oklahoma's welfare programs received approximately $41 million more in 1965 than in 1955. Of some significance, however, is the fact that the rate of increase in revenue from the federal government for support of highways and education in Oklahoma was sufficiently greater than for public welfare programs that the end result was a decline in the relative importance of the latter.

Revenue from Charges and Miscellaneous

That portion of Oklahoma's general revenue derived from charges and miscellaneous rose from $24,673,000 in 1955, to $72,727,000 in 1965. Almost one-half of the state revenue from charges was collected

Table 8

Oklahoma State Revenue from Federal Government by Function, for fiscal Years 1955, 1960, and 1965

Fiscal Year	Total	Education	Highways	Public Welfare	Health and Hospitals	Others
	(In thousands of dollars)					
1955	$ 71,979	$ 3,767	$11,393	$50,230	$1,614	$ 4,853
1960	121,113	7,606	34,376	69,621	2,626	6,884
1965	190,772	25,680	57,340	90,874	4,031	12,847

Source: U. S. Bureau of Census, The Compendium of State Government Finances (1955, 1960, 1965).

Table 9

Percentage Distribution of Oklahoma State Revenue from Federal Government, 1955, 1960, and 1965

Fiscal Year	Total	Education	Highways	Public Welfare	Health and Hospitals	Other
				(Percentages)		
1955	100.0%	5.2%	15.8%	69.8%	2.2%	6.7%
1960	100.0	6.3	28.4	57.5	2.2	5.7
1965	100.0	13.5	30.1	47.6	2.1	6.7

Source: Calculated from data in Table 8.

by the state institutions of higher education, with approximately two-thirds of such collections arising from commercial activities of the colleges and universities, and the other one-third produced by tuition and fees. The collegiate commercial activities include such operations as dormitories and cafeterias. The remainder of the revenue from charges was collected from highway users, primarily through tolls charged on turnpikes; from patients in state hospitals; and from the quasi-commercial activities of various state agencies (see Table 10).

In summary, during the period 1955-1965, Oklahoma displayed a marked and growing tendency to rely more and more heavily on funds from the federal government and revenue from charges levied by state institutions, toll roads, and agencies to support a growing need for revenue, although tax revenue remained the most important single source of revenue. The next step in this analysis is to examine the tax structure of the State of Oklahoma in an effort to discover possible weaknesses in the structure--weaknesses which could perhaps be eliminated, thereby increasing the state tax revenue potential.

Sources of Oklahoma State Tax Revenue

States receive revenue from a number of different types of taxes. The Compendium of State Government Finances publishes data relating to tax revenue of state governments with the data categorized by type of tax. The Compendium lists eight taxes which are major revenue producers for a number of states, and two other types of taxes which are producers of minor amounts of revenue in most states but are major

Table 10

Oklahoma General Revenue from Current Charges for Fiscal Years 1955, 1960, and 1965

Fiscal Year	Total	Education		Highways		Hospitals	Other
		Institutions of Higher Education	Other	Toll Facilities	Other		
		(Thousands of dollars)					
1955	$24,673	$11,953	$ 4,035	$2,457	$ 65	$1,433	$ 4,509
1960	40,709	17,027	7,492	6,070	249	2,259	7,425
1965	72,727	30,848	15,649	9,567	149	2,916	13,525

Source: Bureau of Census, The Compendium of State Government Finances (1955-1960-1965).

revenue producers in one or two states. Revenues produced by the numerous other types of state taxes are reported in the miscellaneous category "Other".

The eight major taxes are: the general sales and gross receipts tax; the selective sales and gross receipts tax; license taxes; the individual income tax; the corporation net income tax; the property tax; death and gift tax; and the severance tax. The two minor types of taxes are document and stock transfer taxes, and the poll tax. Oklahoma collects revenue from all of the major types of taxes except the property tax, which is used solely by local governments in the state (see Tables 11 and 12).

In each fiscal year from 1955 through 1965, Oklahoma received more revenue from the total sales and gross receipts taxes than from the other five major taxes combined. The revenue collected from the various taxes falling into this category amounted to $124,964,000 in 1955, and by 1965, had increased to $206,855,000. Percentagewise, Oklahoma derived 59.4 per cent of total tax revenue in 1955 from total sales and gross receipts taxes; 58.4 per cent in 1960; and 57.9 per cent in 1965. Only a small decline in relative importance of the sales and gross receipts taxes occurred during the eleven-year period, 1955-1965.

The second most productive type of tax for the State of Oklahoma was license tax. In dollar amounts, the revenue collected from sales of licenses almost doubled between 1955 and 1965. License revenue, as a per cent of total tax revenue, failed to exhibit any relative change between 1955 and 1965 (16.4 per cent and 16.5 per cent, respectively) even though that revenue climbed from $34,533,000 in 1955, to

Table 11

Oklahoma Tax Revenue by Type of Tax, Annually, 1955-1965

Fiscal Year	Total Tax Revenue	Total Sales and Gross Receipts	Licenses	Individual Income Tax	Corporate Income Tax	Death and Gift Tax	Severance Tax
			(Thousands of dollars)				
1955	$210,434	$124,964	$34,533	$10,437	$ 8,147	$3,353	$28,999
1956	229,642	133,146	38,468	12,120	9,801	3,988	32,118
1957	235,720	135,133	39,484	12,563	10,457	4,068	34,014
1958	246,491	141,806	41,187	13,497	10,841	5,048	34,112
1959	256,326	147,812	43,331	14,962	11,279	5,189	33,753
1960	275,379	160,774	46,294	16,780	12,166	6,396	32,969
1961	285,150	163,774	48,304	17,883	14,626	7,141	33,969
1962	307,881	171,732	50,701	29,122	14,575	7,288	34,463
1963	321,917	186,363	53,120	19,023	20,673	7,110	35,628
1964	332,257	189,770	56,334	21,773	16,863	9,554	37,963
1965	357,571	206,855	58,855	26,484	17,084	9,810	38,483

Source: U. S. Bureau of Census, The Compendium of State Government Finances (1955-1965).

Table 12

Percentage Distribution of Oklahoma Tax by Type of Tax, 1955, 1960, and 1965

Fiscal Year	Total Tax Revenue	Total Sales and Gross Receipts	Licenses	Individual Income Tax	Corporate Income Tax	Death and Gift Tax	Severance Tax
			(Percentages)				
1955	100.0%	59.4%	16.4%	5.0%	3.9%	1.6%	13.8%
1960	100.0	58.4	16.8	6.1	4.4	2.3	12.0
1965	100.0	57.9	16.5	7.4	4.8	2.7	10.8

Source: Calculated from data in Table 11.

$58,855,000 by the end of the time period under study.

Revenue from the severance tax was the third largest contributor to total tax revenue in Oklahoma, followed in order of descending importance by revenue from the individual income tax, the corporate income tax, and the death and gift tax. The latter tax contributed less than 3 per cent of total tax revenue in 1965. Although the revenue from the severance tax in 1965 was greater than revenue from either the individual income tax or the corporate income tax, it was less than the combined revenue of both income taxes. In contrast, in 1955, the combined revenue from the two income taxes was less than the tevenue received by the state from the severance tax. Revenue from the two income taxes in 1965 accounted for 12.2 per cent of the total tax revenue, as compared to 10.8 per cent for the severance tax.

Total Sales and Gross Receipts Taxes

The total sales and gross receipts tax category is a broad category encompassing the general sales tax and a number of selective sales or excises. The general sales tax is defined as "sales or gross receipts taxes which are applicable with only specified exceptions to all types of goods, all types of goods and services, or all gross income, whether at a single rate or at classified rates."[8] Approximately one-third of the total 1965 sales and gross receipts tax revenue was collected in Oklahoma from the general sales tax, with the other two-thirds produced by the excises or selective sales taxes.

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[8] Compendium of State Government Finances in 1965, p. 68.

Growth in selective sales tax revenue from 1955 to 1965 was greater than the corresponding growth in general sales tax revenue, both absolutely and percentagewise. Excises on motor fuel was the leading producer of selective sales tax revenue, followed by revenue from excises on tobacco products, insurance, and alcoholic beverages (see Table 13). Revenue from the tax on motor fuels represented more than 50 per cent of the total revenue from selective sales taxes.

License Revenue

The largest single source of license revenue for Oklahoma was motor vehicle licenses, followed by revenue from licenses on corporations, occupations and businesses, motor vehicle operators, and hunting and fishing. Motor vehicle license revenue alone provided 76.8 per cent of total license revenue for Oklahoma in 1965. Together with motor vehicle operators license revenue, vehicle license revenue accounted for 81.9 per cent of the total license revenue in 1965 (see Table 14).

Oklahoma Tax Commission Collections

State tax revenue in Oklahoma is collected by the Oklahoma Tax Commission. The Commission collects revenue from a total of 34 different taxes, several of which provide virtually no significant amounts of revenue. The amounts of collections reported by the Commission do not usually coincide with those amounts reported by the Bureau of Census in its several publications of statistics on state and local governmental finances. This does not necessarily indicate that one of the

Table 13

Oklahoma Sales and Gross Receipts Tax Revenue for Fiscal Years 1955, 1960, and 1965

Fiscal Year	Total Revenue	General Sales Tax	Selective Sales Taxes				Insurance	Public Utilities	Other
			Total	Motor Fuel	Alcoholic Beverages	Tobacco Products			
	(Thousands of dollars)								
1955	$124,964	$46,249	$78,715	$47,911	$ 6,056	$10,738	$ 7,280	$438	$ 6,291
1960	160,774	56,184	104,590	58,533	14,439	13,839	9,921	630	7,228
1965	206,855	69,198	137,657	70,494	13,970	21,559	19,521	836	11,277

Source: U. S. Bureau of Census, The Compendium of State Government Finances (1955-1960-1965).

Table 14

Oklahoma License Tax Revenue for Fiscal Years 1955, 1960, and 1965

Fiscal Year	Total	Motor Vehicles	Motor Vehicles Operators	Corporations in General	Alcoholic Beverages	Amusements	Occupations & Business	Hunting and Fishing	Other
				(In thousands of dollars)					
1955	$34,533	$27,297	$1,823	$2,534	$279	$291	$1,025	$1,283	$ 1
1960	46,294	35,688	2,758	3,439	258	283	2,140	1,586	142
1965	58,855	45,226	3,003	4,374	767	395	3,059	1,799	232

Source: U. S. Bureau of Census, The Compendium of State Government Finance (1955-1960-1965).

two agencies has erred, rather, that the differences in amounts reported are due to differences in classification and/or methods of reporting.

Only 13 of the 34 sources of tax collections administered by the Oklahoma Tax Commission produce significant amounts of revenue (see Table 15). Each of the thirteen taxes accounted individually for at least one per cent of total tax collections reported by the Commission for 1965, while the other 21 taxes each accounted for less than one per cent of tax collections.

The major sources of tax collections in 1965 as reported by the Tax Commission were: the sales and use tax, taxes on gasoline and motor fuels, license fees and other vehicle taxes, income taxes, and the gross production tax. These taxes or groups of taxes provided 83.62 per cent of the total tax collections of the Oklahoma Tax Commission in 1965. Moreover, each of these taxes or groups of taxes accounted for at least 10.0 per cent of total collections. Sources of tax revenue supplying at least 3.0 per cent of total tax collections in 1965 included: cigarette and tobacco taxes, taxes on alcoholic beverages and beer, and estate and gift taxes (see Table 16).

Interstate Comparisons of Tax Revenue by Source

How does Oklahoma's revenue structure compare with the revenue structures of the other seven regional states? A comparative analysis could perhaps reveal certain weaknesses in Oklahoma's revenue structure which could indicate possibilities for revisions leading to increased revenue for the state. For that reason, this section involves

Table 15

1965 Tax Collections by the Oklahoma State Tax Commission

Tax	Amount	Percent of Total Collection
Alcoholic Beverage Tax	$ 7,241,211	2.14%
Amateur Radio License	390	-----
Auto-Farm Truck License	30,144,022	8.91
Beverage License	265,000	.09
Beverage Tax	6,728,998	1.99
Bus Mileage Tax	163,760	.05
Cigarette License	240,980	.07
Cigarette Tax	19,193,890	5.67
Coin Device License	394,845	.12
Commercial Vehicle License	13,305,991	3.93
Driver's License	3,002,905	.89
Electric Co-op Tax	624,247	.18
Estate Tax	8,815,499	2.60
Firework License	9,832	----
Franchise Tax	4,125,685	1.22
Freight Car Tax	211,554	.06
Gasoline Tax and Fuel Excise	65,839,607	19.45
Gift Tax	994,516	.29
Gross Production Tax	37,794,416	11.16
Income & Withholding Tax	49,690,585	14.69
Miscellaneous Receipts	15,222	-----
Motor Vehicle Excise Tax	11,277,445	3.33
Oversize Truck Fees	431,910	.13
Overweight Truck Fees	394,960	.12
Petroleum Excise Tax	688,808	.20
Rural Electric Co-op License	1,555	----
Sales Tax	66,181,222	19.55
Special Fuel Use Tax	4,654,860	1.38
Title Fees	626,676	.19
Tobacco License	747	-----
Tobacco Tax	2,365,221	.70
Unclassified Receipts	58	-----
Use Tax	3,017,254	.89
Used Equipment License	7,005	-----

Source: Oklahoma Tax Commission, Seventeenth Biennial Report of the Oklahoma Tax Commission. Oklahoma City, Oklahoma.

Table 16

Percentage Distribution of Major Sources of Collections by Oklahoma Tax Commission for Selected Years

Sources	Fiscal Year 1965	1964	1961
Gasoline and Motor Fuels	20.05%	20.77%	22.26%
Sales and Use Tax	20.91	20.43	21.62
License Fees and Other Vehicle Taxes	16.43	16.43	16.79
Income Taxes	15.49	14.60	12.10
Gross Production Tax	10.74	11.68	12.40
Sub-Total	83.62%	83.91%	85.17%
Cigarette and Tobacco Taxes	6.66	6.54	5.58
Alcohol Beverages and Beer Taxes	3.83	4.13	4.27
Estate and Gift Taxes	3.48	2.94	2.65
Corporation Franchise Taxes	1.20	1.19	1.23
All Other Collections	1.21	1.29	1.10
Sub-Total	16.38%	16.09%	14.83%
Total	100.00%	100.00%	100.00%

Source: Oklahoma Tax Commission, Biennial Report of the Oklahoma Tax Commission (Sixteenth and Seventeenth). Oklahoma City.

a comparison of Oklahoma's revenue structure with those of the seven other regional states: Arkansas, Colorado, Kansas, Louisiana, Missouri, Texas, and New Mexico.

Due to differences in such variables as population, wealth, income, geographical size, climate, and stage of industrialization, comparisons of total dollar amounts of revenue tend to be of limited use. In 1965, Texas, by far the largest state of the group, naturally had by far the largest total revenue, while New Mexico, the state with the smallest population among the group of eight states, reported the smallest state revenue. In terms of total 1965 state revenue, Oklahoma received less than three states and more than four others (see Table 17). This pattern also held true for Oklahoma's relative position among the regional states with respect to general revenue, as well as for both tax and intergovernmental revenues. Oklahoma's revenue from charges and miscellaneous sources, however, failed to follow this pattern. Revenue from the latter category in 1965 was large enough to place the state third highest in the regional group.

A more meaningful comparison among the states would be one utilizing per capita revenue figures to eliminate the problem of differences in population size being reflected in comparisons of total revenue. Such data are presented in Table 18. In terms of total general revenue per capita, New Mexico lead the group in 1965 with $353.90 per person, followed by Louisiana with $296.25 per capita. Oklahoma was third in the group, with a per capita total general revenue of $257.46. Colorado was not far below the Oklahoma per capita figure, but Texas, Kansas, Missouri, and Arkansas each fell below the $200.00 per capita

Table 17

State Revenue by Major Source for Oklahoma and Seven Surrounding States, Fiscal Year 1965

State	Total Revenue	General Revenue	Total Taxes	Intergovern-mental Revenue	Charges and Miscellaneous
	(In thousands of dollars)				
Arkansas	$ 392,781	$ 367,540	$ 217,861	$121,230	$ 28,449
Colorado	542,964	482,839	268,175	147,157	67,507
Kansas	475,796	446,527	265,261	124,264	57,002
Missouri	902,515	816,642	517,226	243,980	55,436
Louisiana	1,124,135	1,046,937	581,272	291,435	174,230
New Mexico	390,643	364,164	188,445	104,350	71,369
Oklahoma	672,649	639,274	357,571	192,352	89,351
Texas	2,149,901	1,985,261	1,187,247	489,252	308,762

Source: U. S. Bureau of Census, The Compendium of State Government Finances in 1965, Table 7, pp. 19-24.

Table 18

Per Capita General Revenue by Source for Oklahoma and Seven Surrounding States, Fiscal Year 1965

State	Total General Revenue Per Capita	Tax Revenue Per Capita	Per Capita Revenue: Intergovernmental Sources	Per Capita Revenue: Charges and Miscellaneous
Arkansas	$187.52	$111.15	$ 61.86	$14.51
Colorado	245.22	136.20	75.74	34.28
Kansas	199.88	118.74	55.62	25.52
Louisiana	296.25	164.48	82.47	49.30
Missouri	181.56	114.99	54.24	12.32
New Mexico	353.90	183.13	101.40	69.36
Oklahoma	257.46	144.01	77.47	35.99
Texas	188.14	112.51	46.37	29.26
National Average	212.05	135.36	53.47	23.23

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1965, Table 4, pp. 11-14.

figure. Four regional states, including Oklahoma, exceeded the national average per capita general revenue figure of $212.05.

Oklahoma's per capita tax revenue of $144.01 was third highest in the group, exceeded by both New Mexico and Louisiana. Oklahoma was also approximately $9 per person above the national per capita tax revenue figure. With respect to per capita revenue from intergovernmental sources, Oklahoma placed third highest in the group and also exceeded the national average. All of the regional states, with the exception of Texas, recorded per capita revenues from intergovernmental sources, primarily from the federal government, greater than the average for all 50 states in 1965. Per capita revenue from charges and miscellaneous sources for Oklahoma in 1965 was $35.99, third highest in the group of regional states. In comparison, Missouri received only $12.32 per capita from charges and miscellaneous sources, while New Mexico collected $69.36 per capita in that category.

Percentage Distribution of General Revenue

With reference to Table 19, tax revenue as percentage of total general revenue among the regional states ranged from the low of 51.7 per cent in New Mexico, to the high of 63.3 per cent in Missouri. For each of the eight regional states, tax revenue accounted for at least 50.0 per cent of total general revenue. Oklahoma's tax revenue in 1965 contributed 55.9 per cent of the state's total general revenue, thus ranking Oklahoma fifth highest in the group in this respect.

Almost one-third of Arkansas' general revenue came from intergovernmental sources in 1965. Both Colorado and Oklahoma received more

Table 19

Percentage Distribution of General Revenue by Source for Oklahoma and Surrounding States, 1965

State	General Revenue	Taxes	Intergovernmental Revenue	Charges and Miscellaneous
		(Percentages)		
Arkansas	100.0%	59.3%	33.0%	7.7%
Colorado	100.0	55.5	30.5	14.0
Kansas	100.0	59.4	27.8	12.8
Louisiana	100.0	55.5	23.3	16.6
Missouri	100.0	63.3	29.9	6.8
New Mexico	100.0	51.7	28.7	19.6
Oklahoma	100.0	55.9	30.1	14.0
Texas	100.0	59.8	24.6	15.6

Source: Calculated from data in Compendium of State Government Finances in 1965, Table 7, pp. 19-24.

than 30 per cent of general revenue in 1965 from intergovernmental sources. For the entire group, the percentage of general revenue contributed by intergovernmental sources ranged from 25 per cent in Texas to 33.0 per cent in Arkansas. Oklahoma was ranked third highest, although not far below second-place Colorado.

Revenue from charges and miscellaneous sources produced 19.6 per cent of New Mexico's general revenue, as compared to 6.8 per cent for Missouri and 7.7 per cent for Arkansas. Oklahoma's revenue from charges and miscellaneous sources accounted for 14.0 per cent of the state's total general revenue, which placed Oklahoma in a tie with Colorado for fourth highest in the group. Louisiana was second highest, and Texas was third highest in terms of revenue from charges and miscellaneous sources as a percentage of general revenue.

Intergovernmental Revenue

Intergovernmental revenue was a very important source of revenue for all eight regional states, as indicated by data of Tables 20 and 21. The prime contributor was the federal government, with only limited amounts originating with local governments. Federal aid to the eight states in 1965 ranged from $480,913,000 for Texas down to $102,956,000 for New Mexico. Oklahoma received $190,772,000, which was the fourth largest amount in the group of regional states. For each of the eight states, the three principal functions supported by federal aid were "Highways," "Public Welfare," and "Education," although the order of importance was not the same for all eight states. Oklahoma received more federal money for welfare programs than for either

Table 20

Federal Intergovernmental Revenue Received by Oklahoma and Surrounding States in Fiscal Year 1965

State	Total	Education	Highways	Public Welfare	Health and Hospitals	Other
	(In thousands of dollars)					
Arkansas	$120,826	$14,484	$ 42,091	$ 49,824	$ 4,201	$10,226
Colorado	146,467	30,529	59,792	43,083	2,206	10,857
Kansas	115,546	22,003	50,867	32,213	2,876	7,587
Louisiana	284,697	20,978	100,036	142,557	5,848	15,278
Missouri	240,440	16,906	115,669	89,963	3,732	14,170
New Mexico	102,956	17,782	46,720	20,738	2,561	14,838
Oklahoma	190,772	25,680	57,340	90,874	4,031	12,847
Texas	480,913	48,496	213,428	176,856	14,312	27,821

Source: U. S. Bureau of Census, The Compendium of State Government Finances in 1965, Table 7, pp. 21-22.

Table 21

Percentage Distribution of Federal Intergovernmental Revenue by Function for Oklahoma and Seven Surrounding States in Fiscal Year 1965

State	Total	Education	Highways	Public Welfare	Health and Hospitals	Other
			(Percentages)			
Arkansas	100.0%	12.0%	34.8%	41.2%	3.5%	8.5%
Colorado	100.0	20.8	40.8	29.4	1.5	7.4
Kansas	100.0	19.0	44.0	27.9	2.5	6.6
Louisiana	100.0	7.4	35.1	50.1	2.1	5.4
Missouri	100.0	7.0	48.1	37.4	1.6	5.9
New Mexico	100.0	17.4	45.4	20.1	2.5	14.4
Oklahoma	100.0	13.5	30.1	47.6	2.1	6.7
Texas	100.0	10.1	44.4	36.8	3.0	5.8

Source: Calculated from data in Table 20.

highways or education. A similar pattern existed for both Arkansas and Louisiana. "Highways" received larger portions of federal money than public welfare programs in Colorado, Missouri, New Mexico, Kansas, and Texas. Educational aid was third in importance for each of the above states; however, the differences between amounts received for "Education" and for "Public Welfare" varied from state to state. New Mexico received an amount for "Education" which was only slightly smaller than the amount received for "Public Welfare," whereas the differences between the two amounts in both Louisiana and Texas were substantial.

Variations in relative importance of federal aid to the states by type of function being aided are reflected in the percentage distributions of federal intergovernmental expenditures to the state government by function. More than forty per cent of the federal aid in five states, including Oklahoma, was for support of highways. Three states of the group received more than forty per cent of their federal funds for public welfare programs. Colorado was the only state in the group to receive more than 20 per cent of federal intergovernmental revenue for educational support. In contrast, Louisiana and Missouri each received less than 10 per cent of total funds for the category "Education."

Interstate Comparison of Tax Revenue by Source

Although total tax collections for the eight regional states possessed variations expected due to differences in economic characteristics, such as differences in population, income, and wealth, the

variation in tax receipts from the eight major taxes could not be explained simply as resulting from differences in economic characteristics. Five states each received revenue from all eight major taxes: a general sales tax, selective sales taxes, licenses, individual income tax, corporate net income tax, property tax, death and gift tax, and the severance tax. The exceptions were as follows. Texas levies neither corporate nor individual income taxes. Oklahoma is prohibited by the Oklahoma Constitution from utilizing the property tax for state revenue purposes. New Mexico's corporate income tax revenue was reported with the individual income tax revenue, in The Compendium of State Government Finances in 1965.

With reference to Table 22, general sales tax revenue collections in 1965 ranged from $63 million in New Mexico and Colorado, to $221 million in Texas. Missouri collected more than $200 million, and Louisiana collected more than $100 million from general sales taxes. Oklahoma's 1965 general sales tax revenue of $69 million was third lowest in the group, and only about $6 million greater than the general sales tax revenue collected by New Mexico and Colorado.

Total selective sales tax revenue in 1965 amounted to $502 million in Texas, and ranged on downward to a low of $48 million in New Mexico. Oklahoma, with selective sales tax collections of $138 million, was third highest in the group, exceeded only by Louisiana and Texas. Missouri collected about $1 million less than Oklahoma, while Arkansas, Colorado, and Kansas each received less than $80 million from selective sales taxes.

Table 22

State Tax Revenue by Source for Oklahoma and Seven Surrounding States in Fiscal Year 1965

State	Total Tax	General Sales Tax	Selective Sales Tax	Licenses	Individual Income	Corporate Income	Property	Death and Gift	Severance
	(In thousands of dollars)								
Arkansas	$ 217,861	$ 76,230	$ 76,924	$ 26,904	$17,922	$13,766	$ 464	$ 915	$ 4,614
Colorado	268,175	63,494	73,064	32,696	59,946	23,929	6,515	7,066	1,250
Kansas	265,261	90,709	77,257	36,706	33,084	11,536	10,522	4,887	530
Louisiana	581,272	119,316	164,582	44,597	23,515	27,356	17,639	5,182	179,085
Missouri	517,226	215,910	136,763	67,097	70,539	13,333	5,993	7,561	30
New Mexico	188,445	63,068	47,935	22,366	16,219	------	10,146	1,074	27,637
Oklahoma	357,571	69,198	137,657	58,855	26,484	17,084	----	9,810	38,483
Texas	1,187,247	221,988	501,560	186,028	------	------	46,109	27,145	202,285

Source: U. S. Bureau of Census, The Compendium of State Government Finances in 1965, Table 7, pp. 19-21.

Three states--Kansas, Missouri, and New Mexico--collected less revenue in 1965 from selective sales taxes than from the general sales tax. Each of the other five states received more revenue from the selective sales taxes than from the general sales tax, although the extent to which the selective sales tax revenue exceeded general sales tax revenue varied. Arkansas, for example, collected only about $700,000 more from its selective sales taxes than from the general sales tax, while Texas and Oklahoma both received approximately twice as much revenue in 1965 from selective sales taxes than from a general sales tax. Missouri, in contrast, received approximately $80 million more from the general sales tax than from selective sales taxes.

Revenue from the sales of licenses in seven states, excluding Texas, ranged from $22 million in Mexico to $67 million in Missouri in 1965. Texas collected far more revenue from license sales--$186 million--than any of the other seven states. Oklahoma collected almost $59 million in 1965 from license sales, an amount large enough to rank third highest in the group.

None of the seven states levying income taxes collected more than $71 million from the individual income tax nor more than $28 million from the corporate net income tax. Missouri received more revenue from the individual income tax than any of the other states, while New Mexico collected the least. Oklahoma, with 1965 individual income tax collections of $26 million, ranked fourth highest in the group. Oklahoma was third highest in the group in terms of corporate net income tax collections. The only state of the group to collect more revenue in 1965 from the corporate income tax than from the individual income

tax was Louisiana.

In 1965 Oklahoma ranked second highest in the group with respect to amounts of revenue produced by death and gift taxes, but the total amount collected from that source was only about $10 million. Severance tax revenue was of substantial amounts for only half of the eight states. Texas received the largest amount--$202 million--followed by Louisiana with $179 million, Oklahoma with $38 million, and New Mexico with approximately $28 million. Property tax revenue in the seven states (Oklahoma excluded) levying the tax for state purposes, ranged from $46 million in Texas down to $915,000 for Arkansas.

Percentage Distribution of Tax Revenue

Table 23 contains data on the percentage distribution of state tax revenue by source. General sales tax revenue as a percentage of total tax revenue for Oklahoma was 19.4 per cent. Only Texas obtained a lower percentage of total tax revenue from the general sales tax. In comparison, revenue from the general sales tax provided 41.7 per cent of Missouri's total tax revenue, and accounted for at least one-third of the total tax revenue for Arkansas, Kansas, and New Mexico.

The reverse occurred with respect to selective sales tax revenue as a percentage of total tax revenue. Texas received 42.2 per cent of total state tax revenue in 1965 in the form of revenue from the selective sales taxes, while Oklahoma was in second place with 38.5 per cent of total tax revenue produced by selective sales taxes. The variation among the states was less with the selective sales taxes as a per cent of total tax revenue than with general sales tax revenue as a

Table 23

Percentage Distribution of Tax Revenue by Source for Oklahoma and Seven Surrounding States, Fiscal Year 1965

State	Total Tax Revenue	General Sales Tax	Selective Sales Tax	License	Individual Income	Corporate Income	Property	Death and Gift	Severance
				(Percentages)					
Arkansas	100.0%	35.1%	35.3%	12.4%	8.2%	6.3%	0.2%	0.4%	2.1%
Colorado	100.0	23.7	27.2	12.2	22.4	8.9	2.4	2.6	0.5
Kansas	100.0	34.2	29.1	13.8	12.5	4.3	4.0	1.8	0.3
Louisiana	100.0	20.5	28.3	7.7	4.0	4.7	3.0	0.9	30.8
Missouri	100.0	41.7	26.4	13.0	13.6	2.6	1.2	1.5	---
New Mexico	100.0	33.5	25.4	11.9	8.6	---	5.4	0.6	14.7
Oklahoma	100.0	19.4	38.5	16.5	7.4	4.8	---	2.7	10.8
Texas	100.0	18.7	42.2	15.7	---	---	3.9	2.3	17.1

Source: Calculated from data of Table 22.

percentage of total tax revenue. The smallest percentage of total state tax revenue produced by selective sales taxes was 25.4 per cent for the State of New Mexico. Thus, selective sales tax revenue provided at least one-fourth of total tax revenue for each of the eight states in the group, while three of the states--Arkansas, Oklahoma, and Texas--received one-third or more of total tax revenue from selective sales taxes.

Oklahoma received 16.5 per cent of total tax revenue in 1965 from fees for licenses, which was the largest percentage in the group, although Texas was not far behind. License fee revenue, however, produced at least 10 per cent of total tax revenue in seven of the eight states--Louisiana was the single exception.

Individual income tax revenue accounted for 22.4 per cent of Colorado's total tax revenue, as compared to 4.0 per cent in Louisiana and 7.4 per cent in Oklahoma, for fiscal year 1965. Five states received a larger percentage of state tax revenue from the individual income tax than Oklahoma. Three states--Oklahoma, Louisiana, and New Mexico--each received less than 10 per cent of tax revenue from the individual income tax. Oklahoma ranked third among six states in percentage of tax revenue derived from the corporate income tax, although the figure for Oklahoma was less than 5 per cent. Colorado was highest with 8.9 per cent, while Kansas was lowest with 4.3 per cent.

Severance tax revenue in 1965 was very important to Louisiana. More than 30 per cent of that state's total tax revenue came from the severance tax. Severance tax revenue as a percentage of total revenue was measurable for only three states other than Louisiana. Texas

collected 17.1 per cent of total tax revenue from the severance tax; New Mexico collected 14.7 per cent; and Oklahoma was ranked fourth highest, with 10.8 per cent.

Comparison of Per Capita Tax Revenues

Inadequacies in comparisons of financial data among states using total revenue figures are somewhat reduced by conversion from total collections to per capita collections. Therefore, it would be worthwhile to examine the per capita tax figures for the eight regional states, and to make comparisons on that basis.

Total tax revenue per capita for the group of regional states in 1965 covered a range from $183.13 per person for New Mexico to $111.15 per person in Arkansas (see Table 24). Oklahoma's total tax revenue on a per capita basis ranked third highest in the group. In 1965, Oklahoma collected an average of $144.01 per person from state taxes. Three states--Arkansas, Texas, and Kansas--each had per capita tax revenues of less than $120 for 1965. Four of the eight states, including Oklahoma, had 1965 per capita tax revenues that exceeded the national average of $135.36 per person.

General sales tax revenue on a per capita basis was highest in 1965 for New Mexico, which collected $61.29 per person from that tax. Oklahoma's per capita general sales tax revenue for 1965 amounted to $27.87, the seventh highest among the eight states. Only Texas collected less revenue per person from the general sales tax than Oklahoma. Moreover, Oklahoma and Texas were the only states of the group which failed to collect at least $30 per person from the general

Table 24

Per Capita Amounts of Tax Revenue from Selected Sources for Oklahoma and Surrounding States, Fiscal Year 1965

State	Total Tax Revenue	General Sales Tax	Motor Fuels Tax	Alcoholic Beverages	Tobacco Products Tax	Motor Vehicle License	Indi-vidual Income	Corpo-rate Income	Prop-erty	Death and Gift	Sever-ance Tax[a]
					(In dollars)						
Arkansas	$111.15	$28.89	$25.13	$3.68	$6.07	$ 9.25	$ 9.14	$ 7.02	$ .24	$ .47	$ 2.38
Colorado	136.20	32.25	23.37	4.03	3.87	10.03	30.44	12.15	3.31	3.59	0.65
Kansas	118.74	40.60	21.24	3.17	6.49	12.06	14.81	5.16	4.72	2.19	0.22
Louisiana	164.48	33.76	21.86	6.80	8.81	3.23	6.65	7.74	4.99	1.47	51.36
Missouri	114.99	48.00	19.21	2.39	5.07	10.40	15.68	2.96	1.31	1.68	-----
New Mexico	183.13	61.29	27.81	3.07	7.30	15.99	15.76	----	9.86	1.04	27.28
Oklahoma	144.01	27.87	28.39	5.63	8.68	18.21	10.67	6.88	----	3.95	15.68
Texas	112.51	21.04	21.72	4.12	10.45	9.93	-----	----	4.37	2.57	19.47
National Average	135.36	34.77	22.28	4.75	6.65	9.68	18.95	9.99		3.79	n.a.

Source: U. S. Bureau of Census, The Compendium of State Government Finances in 1965, Table 4.

[a]Calculated from total revenue and population data in The Compendium of State Government Finances in 1965.

sales tax. Three of the eight states had general sales tax revenues exceeding $40.00 per person.

In 1965, Oklahoma led the group of regional states in amounts of per capita revenue from the selective sales taxes. Total selective sales tax revenue amounted to $55.44 in Oklahoma on a per capita basis, while Texas was second with collections averaging $47.53 per person. Louisiana was third with selective sales tax revenue of $46.57 per capita. The other five states each collected less than $40.00 per person from selective sales taxes. The smallest amount of such revenue reported was $30.41 per person in Missouri. Oklahoma's per capita figure was almost twice as large.

Oklahoma ranked high with regard to the per capita revenues from individual selective sales taxes. Per capita tax revenue in 1965 from selective sales taxes on motor fuels was highest in Oklahoma. It might be noted that Oklahoma collected more revenue per capita from selective sales taxes on motor fuels than from the general sales tax. The least amount of revenue collected from taxes on motor fuels, on a per capita basis, was $19.21 in Missouri. Each of the other seven states, including Oklahoma, received at least $20 per person from motor fuel taxes. Oklahoma's per capita selective sales tax revenue from taxes on alcoholic beverages and tobacco products, ranked second and third highest, respectively.

In terms of per capita revenue in 1965 from the individual income tax, Oklahoma ranked fifth highest in the group. Colorado's per capita revenue from the individual income tax of $30.44 was nearly three times the size of Oklahoma's per capita figure of $10.67. Colorado was

particularly impressive in this respect, as Colorado's per capita individual income tax revenue was almost twice as large as New Mexico's per capita figure, which was the second highest in the group.

Per capita revenue from the corporate net income tax in Oklahoma for 1965 was $6.88, fourth highest among the six states with reported revenues from corporate income taxes. The extent of variation among the states' per capita corporate income tax revenues was smaller than the variation among the per capita individual income tax collections. Colorado, the leader of the regional group in terms of corporate income tax revenue had a per capita revenue figure approximately twice as large as the per capita revenue figure for Oklahoma.

None of the states collected more than $10.00 per person from property taxes, nor more than $4.00 per person from death and gift taxes in 1965. Oklahoma had the distinction of reporting the largest per capita revenues--$3.95--from death and gift taxes.

Per capita revenue in 1965 from the severance taxes levied by the regional states ranged from an insignificant amount in Missouri to $51.36 in Louisiana. New Mexico had the second largest per capita severance tax revenue, $27.28; and Texas had the third largest, $19.47. Oklahoma ranked fourth highest in the group, with a severance tax revenue of $15.68 per person.

Conclusion

In terms of primary sources of general revenue, Oklahoma in 1965 apparently depended less heavily on tax revenue and more heavily on revenue from intergovernmental sources, as well as revenue from charges

and miscellaneous sources, relative to the other regional states. Moreover, the trend of recent years indicates that Oklahoma has been placing less reliance on tax revenue relative to the other two sources of general revenue.

Oklahoma tends to rely much more heavily upon revenue from selective sales tax, especially those on motor fuels, relative to her dependency upon revenue from the general sales tax or income taxes. Comparisons of Oklahoma's per capita and percentage distribution data concerning tax revenue by source with corresponding data for the other seven region states confirms this point. Oklahoma also depends more heavily upon revenue from sales of licenses than do the other seven states.

In view of the already relatively heavy reliance on various selective sales taxes and licenses for state revenue in Oklahoma, the broader-based income and general sales taxes, and the severance tax, appear to offer the greatest potentials for increasing state tax revenue in Oklahoma. Oklahoma's relative positions among the regional states with respect to revenue from the general sales tax, the income taxes, and the severance tax are reviewed in Table 25. Oklahoma ranked seventh in the group in percentage of total tax revenue produced by the general sales tax, and ranked seventh also in terms of per capita revenue in 1965 from the general sales tax. The percentage of total tax revenue contributed by the individual income tax for Oklahoma was next to the lowest in the group. Per capita individual income tax revenue for Oklahoma was ranked fifth highest among seven states. Oklahoma fared somewhat better with corporate income tax revenue, both on a per capita basis and a percentage-of-total-tax revenue basis. Oklahoma's severance

Table 25

Summary Table of Oklahoma's General Sales Tax Revenue, Individual Income Tax Revenue, Corporate Income Tax Revenue, and Severance Tax Revenuem 1965, on a Per Capita Basis, and as a Percentage of Total Rax Revenue

State	General Sales Tax Revenue		Individual Income Tax		Corporate Income Tax		Severance Tax Revenue	
	Per Capita[a]	Per Cent of Total Tax Revenue[c]	Per Capita[a]	Per Cent of Total Tax Revenue[c]	Per Capita[a]	Per Cent of Total Tax Revenue[c]	Per Capita[b]	Per Cent of Total Tax Revenue[c]
Arkansas	$38.89	35.1%	$ 9.14	8.2%	$ 7.02	6.3%	$ 2.38	2.1%
Colorado	32.25	23.7	30.44	22.4	12.15	8.9	0.65	0.5
Kansas	40.60	34.2	14.81	12.5	5.16	4.3	0.22	0.3
Louisiana	33.76	20.5	6.65	4.0	7.74	4.7	51.36	30.8
Missouri	48.00	41.7	15.68	13.6	2.96	2.6	-----	----
New Mexico	61.29	33.5	15.76	8.6	----	---	27.28	14.7
Oklahoma	27.87	19.4	10.67	7.4	6.88	4.8	15.68	10.8
Texas	21.04	18.7	-----	---	-----	---	19.47	17.1

Source: [a]The Compendium of State Government Finances in 1965.

[b]Calculated by author from total revenue and population data contained in The Compendium of State Government Finances in 1965.

[c]Calculated by dividing total revenue by type of tax by total state tax revenue.

tax revenue ranked fourth among four states receiving significant amounts of revenue from severance taxes, both percentagewise and on a per capita basis.

Each of these taxes--the general sales tax; the income taxes, especially the individual income tax; and the severance tax--will be studied for revisions leading to increased revenues, and in each case, the amounts of additional revenue will be estimated. Before undertaking the task of analyzing these tax revisions, however, the problem of tax capacity and tax effort for Oklahoma relative to other states must be considered and evaluated, in an effort to determine whether Oklahoma has sufficient economic resources to pay additional amounts of taxes. The following chapter will attempt such an evaluation.

CHAPTER III

OKLAHOMA'S RELATIVE TAX EFFORT AND CAPACITY

Whether a state is in a position to increase its tax revenue largely depends upon the state's tax capacity and tax effort. The term "tax capacity" or "tax base" in its usual sense refers to a quantitative measure intended to reflect the resources available from which the taxing authority may exact revenue through taxing. Tax effort makes reference to a measure of the extent to which a taxing authority actually uses its capacity to raise revenue through taxation.[1] Associated with the idea of tax effort are the terms "tax burden," "tax sacrifice," and "tax impact." Basically the meanings are similar; however, one important difference exists between the definitions of tax burden and tax impact. Tax impact refers to the initial burden of paying the tax. The tax may be shifted, however, so that the ultimate burden, or incidence, of the tax falls upon another party.[2] For example, an excise on business may be shifted to the consumer

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[1]Advisory Commission on Intergovernmental Affairs, Measures of State and Local Fiscal Capacity and Tax Effort, Report M-16, October 1962, p. 1.

[2]George W. Thatcher, Tax Revision Alternatives for the Tax System of Ohio (Columbus, Ohio: The Ohio Tax Study Committee, 1962), p. 52.

through higher retail prices. The tax burden rests upon the consumer, while the tax impact was upon the business. No attempt will be made in this study to develop an estimate of the shifting and incidence of Oklahoma's taxes. Oklahoma's relative tax effort as developed for the purposes of this study will be based on the principle of tax impact, rather than ultimate tax burden.

The objective of this chapter is to evaluate Oklahoma's current tax effort, based upon the current tax capacity of the state, in an effort to determine how well Oklahoma compares with other states, particularly with the other regional states, in this respect, and to ascertain whether the Oklahoma economy is capable of a stronger tax effort.

Numerous economic factors, such as income, wealth, industrial, mineral and agricultural production, as well as the level of business activities, combine to determine the tax capacity of a state. Tax capacity is by no means easy to measure or quantify. An accurate measurement of the absolute tax capacity of any given state at any given time is virtually impossible to obtain. Each state's capacity is for the most part uniquely its own. Tax capacities vary widely from state to state, both in size and in structure. Interstate comparisons of tax capacity and tax effort are difficult to make, yet not necessarily impossible. Methods designed to facilitate comparisons of tax capacities and tax efforts among several states have been developed and have been frequently employed. In this chapter, several of these methods are utilized to evaluate Oklahoma's relative tax effort and tax capacity.

Methods of Estimating Tax Effort and Tax Capacity

Each of the methods designed to estimate and compare tax effort and tax capacity has its own particular merits and deficiencies. No one method used by itself is capable of providing a sufficiently reliable measure of the relative tax impact or tax capacity. Yet, through the use of several of these methods in conjuncture, the reliability of the measurement is strengthened, and a useful valid assessment of the relative tax efforts of several states becomes possible.

One simple and popular method of estimating relative tax efforts among several states is to compare per capita tax collections of the states. The higher the per capita tax collection, the greater the tax effort. A second relatively simple method is to measure tax capacity by personal income and tax effort by tax collections as a percentage of income. Both of these methods will be utilized in this chapter in the comparison of Oklahoma's tax capacity and tax effort with those of other states. Because some state governments are rather weak fiscal agents relative to the local units of government, while other state governments are strong fiscal agents relative to the local units, both state tax collections and combined state-local tax collections will be used in this study.

As a result of frequent and no doubt valid criticisms of these simpler methods of estimating tax efforts, several indexes have been developed to replace or supplement the simpler devices. Two such indexes are used in this study in an attempt to augment the validity of the evaluation of Oklahoma's relative tax capacity and tax effort. The

structure and limitations of each index are discussed as each index is introduced later in the chapter.

Several years ago, the Advisory Committee on Intergovernmental Relations published a study involving a comparison of tax efforts and tax capacities of state and local governments for fiscal year 1961. The principal method used by this group to estimate tax capacity and tax effort was the formulation and theoretical application of a "representative" tax structure.[3] While the Commission's data may be somewhat out of date, the results of their study as related to Oklahoma and the regional states will be briefly summarized and compared with the results of this analysis in an attempt to gain a better perspective of the relative tax capacity and tax effort of Oklahoma.

Comparison of Per Capita Tax Collections

Per capita total state tax collections for all 50 states in fiscal year 1965 exhibited considerable variation (see Table 26). The smallest amount collected was $78.01 per person in Nebraska, as compared to a per capita collection of $239.50 in Delaware. Four states each collected less than $100 per person from state taxes, while three states each collected in excess of $200 per person. Neither physical size of the state, nor the size of the population, appeared to have any important effect on determination of the amount of state taxes paid per capita. Sparsely populated states such as Nevada, and densely populated states such as California and New York had relatively large per

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[3]Advisory Commission on Intergovernmental Affairs, op. cit.

Table 26

Per Capita Total State Taxes, Ranked by State, for Fiscal Year 1965

Rank	State	Per Capita State Taxes	Rank	State	Per Capita State Taxes
1.	Delaware	$239.50	26.	West Virginia	$133.20
2.	Hawaii	217.73	27.	Indiana	132.76
3.	Washington	201.20	28.	Florida	131.34
4.	New Mexico	183.13	29.	Massachusetts	126.19
5.	Wisconsin	165.68	30.	North Dakota	125.89
6.	Nevada	175.38	31.	Georgia	125.83
7.	Alaska	173.99	32.	Kentucky	123.15
8.	California	168.32	33.	South Carolina	121.70
9.	Louisiana	164.48	34.	Alabama	121.60
10.	Michigan	161.63	35.	Iowa	120.03
11.	Vermont	159.21	36.	Kansas	118.74
12.	New York	158.36	37.	Maine	118.56
13.	Maryland	149.82	38.	Missouri	114.99
14.	Utah	149.01	39.	Mississippi	114.69
15.	Arizona	147.63	40.	Illinois	114.47
16.	Oregon	146.87	41.	Montana	112.69
17.	Minnesota	146.12	42.	Tennessee	112.54
18.	Oklahoma	144.01	43.	Texas	112.51
19.	Wyoming	140.94	44.	Arkansas	111.15
20.	North Carolina	140.03	45.	Virginia	107.18
21.	Rhode Island	139.87	46.	Ohio	101.09
22.	Connecticut	137.86	47.	South Dakota	91.30
23.	Colorado	136.20	48.	New Hampshire	80.78
24.	Pennsylvania	134.92	49.	New Jersey	80.23
25.	Idaho	133.26	50.	Nebraska	78.01

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1965, Table 4, p. 11.

capita tax collections.

Oklahoma's per capita state tax revenue in 1965 of $144.01 was the eighteenth highest in the nation. Compared with per capita state tax revenues of the other seven regional states--Arkansas, Louisiana, Texas, New Mexico, Colorado, Kansas, and Missouri--Oklahoma ranked third highest. New Mexico, with a state per capita tax collection of $183.13, was fourth highest in the nation, and was first in the group of regional states. Louisiana ranked ninth in the nation and second in the regional group. Colorado also made a relatively strong showing nationally, but the other four regional states were considerably farther down on the national scale. Arkansas ranked 44th and Texas ranked 45th in the nation, each collecting about $112 per person in state taxes. Kansas ranked 36th and Missouri ranked 38th in the nation, each state collecting less than $120 per person tax revenue.

To evaluate Oklahoma's tax effort based upon comparison of per capita state tax revenue alone, it might well be concluded that Oklahoma made a relatively strong tax effort. However, since duties and services of state governments vary in scope, extent, and intensiveness, and especially since functions of public nature are shared in varying degrees with local governmental units, judgment should perhaps be reserved until local taxes per capita are considered jointly with state per capita taxes. State taxes may be relatively heavy in State A as compared with state taxes in State B simply because differences exist in the sharing of public responsibilities between state and local governments. State A's heavy state taxes may be accompanied by local taxes which are light, while the residents of State B may pay

rather heavy local taxes. Therefore, a comparison of per capita taxes would be more meaningful if local tax collections were included with state tax collections.

State-Local Per Capita Tax Collections

An examination of the combined state-local per capita tax collections for the 50 states for fiscal year 1960 reveals a range from a high of $287.54 in New York down to a low of $117.60 in Alabama (see Table 27). The national average was $200.67 per person. State-local 1960 tax collections per person in Oklahoma amounted to $177.07, which ranked Oklahoma 34th highest in the nation.

In fiscal year 1965, the per capita tax collections for state and local taxes combined had increased. California, with per capita collections of $379, had displaced New York in the highest position. Six states, including California, collected more than $300 per person in state and local taxes. In contrast, Arkansas collected only $159 per person and South Carolina collected $160 per person from state and local taxes in 1965. A total of ten states each received less than $200 per person tax revenue from both state and local tax sources. The national average in 1965 had risen to $266 per person.

Oklahoma dropped from the 34th highest per capita state-local tax collection in 1960, to 39th in 1965, despite an absolute increase in per capita tax revenue from $177 in 1960 to almost $216 in 1965. Even with this absolute increase, the gap between Oklahoma's per capita tax collection and the national average widened from $23.60 in 1960, to $40.18 in 1965. States ranking below Oklahoma in 1960 but surpassing

Table 27

State and Local Tax Collections Per Capita by State,
Fiscal Years 1960 and 1965

State	1960	1963	State	1960	1965
Alabama	$117.60	$167.55	Montana	$219.32	$264.87
Alaska	160.53	249.80	Nebraska	173.76	219.75
Arizona	208.35	266.45	Nevada	273.26	321.82
Arkansas	125.67	159.47	New Hampshire	177.34	220.95
California	278.18	379.29	New Jersey	206.90	268.65
Colorado	231.17	291.93	New Mexico	174.63	243.15
Connecticut	213.03	291.04	New York	287.54	372.10
Delaware	198.66	302.05	North Carolina	136.91	188.30
Florida	183.98	233.01	North Dakota	198.26	248.32
Georgia	141.55	190.74	Ohio	184.73	225.26
Hawaii	236.76	297.91	Oklahoma	177.07	215.93
Idaho	188.97	245.27	Oregon	224.93	280.72
Illinois	206.04	266.30	Pennsylvania	173.09	245.05
Indiana	179.65	257.19	Rhode Island	197.55	262.74
Iowa	205.47	275.94	South Carolina	129.31	160.82
Kansas	217.86	273.34	South Dakota	198.09	240.71
Kentucky	118.67	174.89	Tennessee	134.51	178.24
Louisiana	188.47	222.04	Texas	162.30	207.05
Maine	193.43	233.18	Utah	196.87	254.61
Maryland	198.72	261.06	Vermont	222.51	277.84
Massachusetts	233.79	302.13	Virginia	133.89	188.18
Michigan	216.79	289.66	Washington	228.04	294.06
Minnesota	216.99	299.25	West Virginia	145.02	191.97
Mississippi	129.95	169.89	Wisconsin	215.67	309.53
Missouri	152.11	222.67	Wyoming	235.54	277.76
U. S. Average	200.67	266.11			

Source: Tax Foundation, Inc., Facts and Figures on Government Finance. 14th Biennial Edition/1967. Table 110, p. 142.

her in 1965 were Alaska, Missouri, New Mexico, Nebraska, and Pennsylvania. Each of these five states increased per capita state-local tax collections by $65 per person, as compared to Oklahoma's increase of $39 per person between 1960 and 1965.

The absolute difference between Oklahoma's collection and that of the highest ranking state also increased, from $110 per person in 1960 to $163 in 1965. Oklahoma's per capita tax collection from both state and local taxes as a percentage of the national average declined from 88.2 per cent in 1960 to 81.1 per cent in 1965. As a percentage of the per capita tax collection of the highest ranking state, Oklahoma's per capita collection dropped from 61.6 per cent in 1960 to 56.9 per cent in 1965.

When the per capita state-local tax collections for Oklahoma are compared with corresponding collections in the other seven regional states a relative decline in Oklahoma's ranking can be observed between 1960 and 1965 (see Table 28). In fiscal year 1960, Oklahoma ranked fourth highest in the group. Only two regional states in 1960 collected more than $200 per person from state and local taxes. Colorado collected $231 per person and Kansas collected $218 per person from both state and local taxes. Oklahoma in 1960 received state-local taxes amounting to $177.07, as previously stated.

By 1965, Oklahoma's position in the regional group had declined to seventh place. Oklahoma reported the second smallest percentage increase--21.9 per cent--in per capita state-local tax revenue of the group over the five-year time span. The largest percentage increase was posted by New Mexico, which increased state-local tax revenue from

Table 28

Per Capita State-Local Tax Collection for Oklahoma and Surrounding States, 1960 and 1965

State	1960 (dollars)	1965 (dollars)	Increase Per Capita	Percentage Increase (Percentages)
Arkansas	$125.67	$159.47	$33.80	27.0%
Colorado	231.17	291.93	60.76	26.3
Kansas	217.86	273.34	55.48	25.5
Louisiana	188.47	222.04	33.57	17.8
Missouri	155.11	222.67	67.56	43.6
New Mexico	174.63	243.15	68.52	39.2
Oklahoma	177.07	215.93	38.86	21.9
Texas	162.30	207.05	34.75	27.6

Source: Tax Foundation, Inc., Facts and Figures on Government Finance. 14th Biennial Edition/1967. Table 110, p. 142.

1960 to 1965 by 43.6 per cent. Oklahoma and Louisiana were the only two states of the group not experiencing at least a 25 per cent increase in per capita state-local tax revenue.

The absolute span separating Oklahoma's per capita state-local tax collection from that of the highest state in the regional group (Colorado) rose from $54 in 1960 to $66 in 1965. Moreover, four regional states recorded absolute increases per capita of greater magnitude than the $39 increase per capita for Oklahoma. Per capita state-local tax revenues rose by more than $60 between 1960 and 1965 for Colorado, Missouri, and New Mexico. Kansas also boosted per capita tax revenues from state-local sources by an amount significantly larger than Oklahoma's increase.

Apparently, even though state taxes per capita were relatively heavy in Oklahoma, both regionally and nationally, the weight of Oklahoma's state-local tax collections combined on a per capita basis was relatively light. In addition, the relative burden of Oklahoma's per capita state-local taxes declined significantly from 1960 to 1965, leaving Oklahoma with a lighter tax burden, as measured by per capita taxes, than six of the other states in the regional group in 1965.

Total Per Capita Tax Collections

To complete the comparison of per capita tax loads among states, at least a brief glance at the total per capita tax collections, including the federal per capita taxes, by state is merited. The variation in per capita payment of federal taxes among the states was quite substantial. The per capita federal tax collections for fiscal year

1965 ranged from $1,215 in Delaware to $294 in Mississippi (see Table 29). Obviously one of the most important determinants of amounts of federal tax paid is income of the residents of the state. Federal taxes paid per capita in Oklahoma for 1965 amounted to $479, which ranked Oklahoma 35th highest in the nation, and fifth highest within the regional group of eight states.

The addition of federal taxes to state-local per capita taxes does not counter the previously presented evidence that total per capita tax loads in Oklahoma for 1965 were relatively light. Oklahoma's total tax payments in 1965 on a per capita basis amounted to approximately $695, sixth highest in the regional group, and only $10 per person above seventh-place New Mexico.

Tax Revenue as a Percentage of Income by State

Since per capita revenue figures present no indication of the tax capacity, or the ability to pay taxes, of a state, a second measurement of the tax burden frequently used is to compare tax collections as a percentage of income, using either personal or disposable personal income data. The most common argument concerning the relative merits of this particular measuring device is that taxes in the final analysis must be paid from income. Since most taxes, if indeed they are paid from income, are paid from personal income rather than disposable personal income, the income data in this study are personal income data.

Oklahoma's per capita personal income was relatively low in 1965 in comparison with the per capita personal incomes of the other states in the nation (see Table 30). In fiscal year 1960, Oklahoma's per

Table 29

Per Capita Federal Tax Collections by State, 1965

State	Per Capita Collection	State	Per Capita Collection
Arkansas	$ 344	New Jersey	$722
Alabama	374	Montana	487
Alaska	630	Nebraska	540
Arizona	534	Nevada	783
California	762	New Hampshire	605
Colorado	611	New Mexico	442
Connecticut	940	New York	861
Delaware	1,215	North Carolina	412
Florida	569	North Dakota	413
Georgia	436	Ohio	654
Hawaii	604	Oklahoma	479
Idaho	461	Oregon	620
Illinois	770	Pennsylvania	670
Indiana	586	Rhose Island	702
Iowa	511	South Carolina	352
Kansas	544	South Dakota	402
Kentucky	417	Tennessee	421
Louisiana	417	Texas	516
Maine	519	Utah	508
Maryland	735	Vermont	556
Massachusetts	759	Virginia	540
Michigan	676	Washington	636
Minnesota	552	West Virginia	447
Mississippi	291	Wisconsin	592
Missouri	630	Wyoming	649
U. S. Average	$633		

Source: Tax Foundation, Inc., Facts and Figures on Government Finance. 14th Biennial Edition/1967.

Table 30

Per Capita Personal Income by State for 1965 and 1960, Ranked for 1965

State	1965	1960	State	1965	1960
Connecticut	$3,401	$2,854	Wyoming	$2,558	$2,311
Delaware	3,392	3,002	New Hampshire	2,547	2,079
Nevada	3,311	2,801	Montana	2,438	2,007
Illinois	3,280	2,634	Florida	2,423	1,969
New York	3,279	2,779	Virginia	2,419	1,849
California	3,258	2,722	Idaho	2,395	1,765
New Jersey	3,237	2,652	Arizona	2,370	2,019
Alaska	3,187	2,772	Utah	2,355	1,912
Massachusetts	3,050	2,511	Texas	2,338	1,920
Michigan	3,010	2,320	Vermont	2,312	1,882
Maryland	3,001	2,395	Oklahoma	2,289	1,849
Washington	2,906	2,307	North Dakota	2,279	1,746
Hawaii	2,879	2,292	Maine	2,277	1,869
Indiana	2,846	2,186	South Dakota	2,213	1,854
Ohio	2,829	2,335	New Mexico	2,193	1,815
Rhode Island	2,823	2,180	Georgia	2,159	1,609
Oregon	2,761	2,236	Louisiana	2,067	1,606
Pennsylvania	2,747	2,254	Kentucky	2,045	1,535
Wisconsin	2,724	2,162	North Carolina	2,041	1,559
Colorado	2,720	2,282	West Virginia	2,027	1,671
Iowa	2,676	2,024	Tennessee	2,013	1,535
Minnesota	2,666	2,073	Alabama	1,910	1,462
Missouri	2,663	2,203	South Carolina	1,846	1,381
Kansas	2,639	2,060	Arkansas	1,845	1,337
Nebraska	2,629	2,135	Mississippi	1,608	1,167

Source: U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, July, 1966.

capita personal income was $1,841, which ranked 37th highest in the nation. By fiscal year 1965, despite income rising to $2,289 per person, Oklahoma had advanced only one position in the national rankings, from 37th highest to 36th. If personal income is a highly important determining variable for tax capacity, Oklahoma had a relatively small tax capacity as compared to the other states of the nation.

How did Oklahoma's per capita personal income in 1960 and 1965 compare with the incomes of the other seven regional states? For the regional group as a whole, per capita income displayed considerable variation. Arkansas had the lowest per capita personal income of the group for both years, and was next to the lowest nationally in both years. Louisiana and New Mexico, ranked 43rd and 41st respectively in the nation in 1960, retained these relative positions again in 1965. Texas was just above Oklahoma during both years. On the other hand, Colorado, Missouri, and Kansas could be characterized as moderately high income states. Colorado ranked 21st; Missouri ranked 24th; and Kansas ranked 25th in the nation for 1965. On a national scale, the eight regional states had personal per capita incomes ranging from twenty-first highest to forty-ninth, with five of the eight regional states falling into the lower half of the 50 states by size of per capita personal income.

State Taxes as a Percentage of Personal Income

State taxes as a percentage of state personal income in 1965 for all 50 states in the nation had a span of almost five percentage points (see Table 31). New Jersey's state taxes were equivalent to only 2.5

Table 31

State Taxes and State-Local Taxes as a Percentage of Personal Income in 1965 by State

State	State Taxes as a Percentage of Personal Income	State-Local Taxes as a Percentage of Personal Income
Alabama	6.4%	8.8%
Alaska	5.5	7.8
Arizona	6.2	11.2
Arkansas	6.0	8.6
California	5.2	11.6
Colorado	5.0	10.8
Connecticut	4.1	8.6
Delaware	7.1	8.9
Florida	5.4	9.6
Georgia	5.8	8.8
Hawaii	7.6	10.4
Idaho	5.6	10.2
Illinois	3.5	8.1
Indiana	4.7	9.0
Iowa	4.5	10.3
Kansas	4.5	10.3
Kentucky	6.0	8.6
Louisiana	7.9	10.7
Maine	5.2	10.2
Maryland	5.0	8.7
Massachusetts	4.1	9.9
Michigan	5.4	9.6
Minnesota	5.5	11.2
Mississippi	5.2	10.6
Missouri	4.3	8.4
Montana	4.6	10.9
Nebraska	3.0	8.4
Nevada	5.3	8.2
New Hampshire	3.2	8.7
New Jersey	2.5	8.3
New Mexico	8.3	11.1
New York	4.8	11.3

Table 31 (continued)

State	State Taxes as a Percentage of Personal Income	State-Local Taxes as a Percentage of Personal Income
North Carolina	6.9%	9.2%
North Dakota	5.5	10.9
Ohio	3.6	8.0
Oklahoma	6.3	9.4
Oregon	5.3	10.2
Pennsylvania	4.9	8.9
Rhode Island	5.0	9.3
South Carolina	6.6	8.6
South Dakota	4.1	10.9
Tennessee	5.6	8.8
Texas	4.8	8.9
Utah	6.3	10.8
Vermont	6.9	12.0
Virginia	4.4	7.8
Washington	6.9	10.1
West Virginia	6.6	9.5
Wisconsin	6.5	11.4
Wyoming	5.5	10.9

Source: Calculated from data in the Compendium of State Government Finances in 1965; Facts and Figures on Government Finances; 14th Edition/1967; and Survey of Current Business, July 1966.

per cent of New Jersey's personal income, whereas New Mexico taxpayers contributed an amount in state taxes equal to 8.3 per cent of total personal income in New Mexico. State taxes amounted to 7-8 per cent of personal income in four states; 6-7 per cent of personal income in twelve states; and less than five per cent of personal income in seventeen states. Oklahoma's state tax collections in 1965 were equivalent to 6.3 per cent of Oklahoma's perconal income for that year. Thirteen states had higher percentages than Oklahoma. On this basis alone, it would appear that Oklahoma made a relatively good tax effort based upon a relatively small tax capacity. Again, however, a more accurate picture may be obtained if local taxes are included with state taxes.

State-Local Taxes as a Percentage of Personal Income

The additional of local tax collections to state tax collections reduces the rankings of some states while improving the rankings of other states on the national scale. State-local tax collections, as a percentage of personal income in 1965, ranged from 12.0 per cent in Vermont down to 7.8 per cent in Alaska and Virginia. In twenty-three states, state-local tax revenues represented 10 per cent or more of the personal income of the states. Oklahomans, on the average, paid an amount equivalent to 9.4 per cent of personal income in state-local taxes. Residents of twenty-seven other states contributed larger percentages of their personal incomes for state-local taxes than did Oklahoma's residents.

To consider only the eight regional states, state taxes alone, as a percentage of personal income, ranged from 4.5 per cent in Kansas

to 8.3 per cent in New Mexico. Oklahoma ranked third highest in the group with state tax revenue amounting to 6.3 per cent of personal income of the state. Relative positions were somewhat changed when local taxes were considered as well as state taxes. State-local tax collections in New Mexico exceeded 11 per cent of that state's personal income. Colorado and Louisiana, as well as Kansas, had state-local tax collections equivalent to more than 10 per cent of state personal income. At the lower end of the range was Missouri with state-local tax revenue equaling 8.4 per cent of the state's personal income. State-local taxes in Texas and Arkansas were also less than 9.0 per cent of personal income. Revenue from state and local taxes in Oklahoma amounted to 9.4 per cent of personal income, which was the fifth highest among the eight states.

To evaluate the relative tax burden or effort made by Oklahoma at this point, in view of the above information, it might be concluded that as far as state taxes alone are considered, Oklahoma made a relatively good tax effort with a relatively low tax capacity as indicated by personal income. This holds true whether Oklahoma was compared with all the states of the nation, or with only the other seven regional states.

The inclusion of local taxes with state tax collections tend to diminish the image of a strong tax effort on Oklahoma's part. More than half the states in the nation made a stronger state-local tax effort than Oklahoma, as measured by the "tax revenue as a percentage of personal income" method. Also, half the regional states performed

Table 32

State Tax Revenue and State-Local Tax Revenue as a Percentage of Personal Income in 1965 for Oklahoma and Seven Regional States

State	State Tax Revenue as a Percentage of Personal Income	State-Local Tax Revenue as a Percentage of Personal Income
	(Percentage)	
Arkansas	6.0%	8.6%
Colorado	5.0	10.8
Kansas	4.5	10.3
Louisiana	7.9	10.7
Missouri	4.3	8.7
New Mexico	8.3	11.1
Oklahoma	6.3	9.4
Texas	4.8	8.9

Source: Calculated from data in Table 31.

better in this respect than did Oklahoma. Relatively speaking, then, as measured by the "tax revenue as a percentage of personal income approach," Oklahoma's tax effort did not appear much stronger than as measured by the "per capita taxes" method.

Oklahoma's Relative Tax Effort as Measured by Indexes

Various indexes have been designed to compensate for the inherent weaknesses of the simpler devices used to estimate relative tax efforts or tax impacts. Most of these indexes include some means of evaluating tax capacity as well as tax load or burden. Tax effort indexes range from fairly simple models to elaborate complex instruments. For the purposes of this analysis, two indexes were used: (1) the Frank Index, and (2) an index involving the computation of indexes of economic ability, tax, and tax effort. Finally, a summarization of the report published by the Advisory Commission on Intergovernmental Relations, or that part of the report pertaining to Oklahoma and surrounding states, in which a representative tax structure was developed and theoretically applied to each state, is included.

Frank"s Index: Tax Sacrifice Index

H. J. Frank criticized the use of per capita figures on grounds that such figures relate to the amount assessed to the average resident of the state, and fails to relate to his ability to pay taxes.[4] Frank also criticized the use of tax revenue as a percentage of income

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[4]H. S. Frank, "Measuring State Tax Burdens," National Tax Journal, Vol. XII, No. 1, March 1959, p. 179.

because such figures give no indication of the efforts of society in producing a given level of income. Residents of a high income state would have to put forth less effort to produce a given level of income than would residents of a lower income state. Even if the percentage of income going for taxes should be the same for both states, if one state had a lower level of income, a greater tax effort would be made by residents of that state, according to Frank.

To correct for the weaknesses of the above mentioned methods, Frank devised what he called an index of tax sacrifice--taxes as a percentage of personal income were divided by per capita personal income. This measure actually involves a squaring of income, which Frank defended as a means to give greater weight to income than to taxes. An effort was made by Frank to incorporate the basic principle of equality of sacrifice behind the progressive individual income tax.

This index measures not the capacity but rather tax sacrifice, or the relative importance to the citizens of the resources given up to the government at different levels of income.[5] Capacity to provide revenue for public purposes presumably depends primarily on per capita income. Tax effort measures the extent to which a government actually utilizes this capacity. As a measure of the degree of sacrifice of income for taxes, and a measure of averages unrelated to any consideration or assumption of incidence, the applicability is greatest with comparable units during the same time period.

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[5]Richard Bird, "A Note on 'Tax Sacrifice' Comparisons," National Tax Journal, Vol. XVII, No. 3, September 1964, p. 303.

An Oklahoma State University study,[6] produced in 1961 by Ansel Sharp and Robert Sandmeyer, used the Frank Index with 1957 data as one means of evaluating Oklahoma's tax effort. This researcher used the Frank Index with 1965 data. While comparing Oklahoma's index number between the two years offers little of value, it is possible and worthwhile to compare Oklahoma's relative position in the nation for the two time periods, as well as Oklahoma's relative position in the group of regional states.

The Frank Index is computed by dividing state and local taxes as a percentage of personal income by the per capita personal income, then multiplying by 1,000. For fiscal year 1965, the index ranged from 6.6 for the state of Mississippi down to a low of 2.5 for both Connecticut and Illinois (see Table 33). Due to the rounding to a single decimal place, several states emerged with the same index number, whereas more diversity would be expected if the computations were carried out to several decimal places. However, a single decimal place index number should provide a sufficient indication of relative standing for the purpose of this study, since other methods are also used.

Oklahoma, with an index number of 4.1 in 1965, ranked higher than twenty-seven other states, and equal to or less than twenty-two states. Thus, on a national level, Oklahoma ranked approximately in the middle of the group in terms of tax sacrifice as measured by the Frank Index. Oklahoma's position nationally as indicated by this index was higher

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[6]Ansel M. Sharp and Robert L. Sandmeyer, Oklahoma Tax Effort and Service Effort: A Study in Interstate Comparisons, Research Foundation, Oklahoma State University, November 1961.

Table 33

Frank's Index Calculated for All Fifty States with 1965 Data

State	Index Number	State	Index Number
Alabama	4.6	Montana	4.5
Alaska	2.4	Nebraska	3.2
Arizona	4.7	Nevada	2.5
Arkansas	4.7	New Hampshire	3.4
California	3.6	New Jersey	2.6
Colorado	4.0	New Mexico	5.1
Connecticut	2.5	New York	3.4
Delaware	2.6	North Carolina	4.5
Florida	4.0	North Dakota	4.8
Georgia	4.1	Ohio	2.8
Hawaii	3.7	Oklahoma	4.1
Idaho	4.3	Oregon	3.7
Illinois	2.5	Pennsylvania	3.2
Indiana	3.2	Rhode Island	3.3
Iowa	3.8	South Carolina	4.7
Kansas	3.9	South Dakota	4.9
Kentucky	4.2	Tennessee	4.4
Louisiana	5.2	Texas	3.8
Maine	4.5	Utah	4.6
Maryland	2.9	Vermont	5.2
Massachusetts	3.2	Virginia	3.2
Michigan	3.2	Washington	3.5
Minnesota	4.2	Wisconsin	4.2
Mississippi	6.6	West Virginia	4.7
Missouri	3.2	Wyoming	4.3

Source: Calculated from income data in Survey of Current Business, July 1966/ Volume 52, Number 7; and tax data from Facts and Figures on Government Finance, 14th Biennial Edition/1967.

than indicated by either the per capita tax payment approach or the taxes-as-a-percentage-of-income method.

Within the group of regional states, Oklahoma also fared higher by the Frank Index than by either of the previous two measures. By the Frank Index, Oklahoma ranked fourth highest in the group, exceeded by Louisiana, New Mexico, and Arkansas. It should be noted, however, that only one-tenth of an index number separated Oklahoma and Colorado; two-tenths of an index number separated Oklahoma and Kansas; and three-tenths of an index separated Oklahoma and Texas. On the other hand, six-tenths of an index number was between Oklahoma and third ranked Arkansas, and 1.1 index numbers separated Oklahoma and first place Louisiana. Thus, the difference between Oklahoma and the states falling below Oklahoma was not nearly as great as the difference between Oklahoma and the three higher ranking states.

How did Oklahoma's relative standing in tax sacrifice in 1965 compare with the state's relative standing at an earlier time period? In 1957, Oklahoma's index number was large enough to rank 13th in the nation and third within the group of regional states. Arkansas and New Mexico both put forth greater tax sacrifice in 1957 than did Oklahoma. Also, Oklahoma's position was more clearly defined in 1957 than in 1965. Apparently, Oklahoma's tax sacrifice declined somewhat between 1957 and 1965. This decline could be due to either or both of two major factors. Other states could have increased state and local taxes at a faster pace than Oklahoma; or personal income (aggregate or/and per capita) could have risen faster relative to tax collections in Oklahoma than in other states. Generally, it appears that the

decline in Oklahoma's relative tax sacrifice was due more to a slower rate of increase in tax collections.

Tax Effort Index

The Oklahoma State University study was critical of the results of the Frank Index because it involves only income as a measure of a state's ability to pay taxes.[7] A resident of Oklahoma may earn his income in Oklahoma and own property in Texas on which he has to pay Texas taxes. Income may be taken out of the state by absentee owners of wealth within the state. A second index was adopted by Sharp and Sandmeyer which was somewhat more complex in that it included more economic data. (This index was originally devised by the Bureau of the Census and has been modified several times). Basically this index involves the computation of three different indexes: one of economic ability; one simply called the tax index; and the third a tax effort index.

The index of economic ability indicates the tax capacity of each state included. Actually the economic ability index is a composite of three indexes of tax capacity. These three indexes are equally weighted and include per capita personal income, per capita value of the output of basic industries, and per capita retail sales. The per capita output index, in turn, has three equally weighted component parts: per capita value added by manufactures, per capita value of 79 (now 78) basic farm crops, and the per capita value of mineral production. These per capita figures were not available in published form,

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[7]Sharp and Sandmeyer, op. cit.

and so were calculated by this researcher by dividing aggregate data by the estimated population of the states in 1965, as estimated by the Bureau of the Census (see Tables 34 and 35).

Each index was computed by dividing the state per capita figure by the average per capita figure for the nation. The mean of the three equally weighted component parts of the per capita output index divided by the national average gave the appropriate index number for per capita output. The economic ability index was calculated by taking the mean of the sum of the income index, output index, and retail sales index. The tax index was arrived at by simply dividing the state-local per capita tax figure for each state by the national average: Finally, the tax effort index was calculated by dividing the tax index by the economic ability index, then multiplying by 100 (see Table 36).

Several criticisms have been leveled at the method of computing the economic ability index.[8] The output index is computed by adding the gross value of farm crops and mineral production while the value added figure is used in manufacturing. Livestock is not included, an important sector for some states. The use of retail sales figures produced by Sales Management, Incorporated, has been questioned because of skepticism about the validity of these estimates.

The Oklahoma State University study group used 1957 data to compute the tax effort index. This researcher has computed the index in a similar fashion using 1963 data, which were the most recent data available for all the series. Since the 1957 index was computed for 48

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[8] Ibid.

Table 34

Calculation of the Output Index for 48 States with 1963 Data

State	Population (thousands)	Value Added by Manufactures	Value of Mineral Production	Value of 78 Farm Crops	Total Output	Per Capita Output[a]	Per Capita Output as Per Cent of U. S. Total
			(thousands of dollars)			(dollars)	(Per Cent)
Alabama	3,378	$ 2,342,000	$ 215,870	$ 304,868	$ 2,862,738	$ 847	69%
Arizona	1,516	617,000	481,115	317,175	1,415,290	934	76
Arkansas	1,907	959,000	167,284	553,512	1,679,796	881	71
California	17,557	17,157,000	1,526,241	1,940,089	20,623,330	1,175	95
Colorado	1,913	1,203,000	317,144	254,725	1,774,869	987	80
Connecticut	2,716	4,478,000	20,614	51,237	4,549,851	1,675	136
Delaware	480	666,000	1,341	34,775	702,116	1,463	118
Florida	5,531	2,326,000	201,620	659,690	3,187,310	576	47
Georgia	4,206	3,239,000	119,476	459,162	3,817,638	908	74
Idaho	689	366,000	82,787	328,492	777,279	1,128	91
Illinois	10,369	14,557,000	586,962	1,547,367	16,691,367	1,610	130
Indiana	4,780	7,688,000	203,966	821,325	8,713,291	1,823	148
Iowa	2,758	2,276,000	97,670	1,405,775	3,779,445	1,370	111
Kansas	2,218	1,437,000	518,302	704,410	2,654,430	1,197	97
Kentucky	3,121	2,460,000	432,693	516,453	3,409,146	1,092	88
Louisiana	3,410	1,918,000	2,638,389	376,081	4,932,470	1,446	117
Maine	985	779,000	14,104	95,815	880,919	902	73
Maryland	3,351	2,978,000	70,250	111,638	3,159,888	824	67
Massachusetts	5,297	6,365,000	32,661	50,533	6,448,194	1,217	98
Michigan	8,036	13,004,000	492,029	471,209	13,967,238	1,738	141

Table 34 (continued)

State	Population (thousands)	Value Added by Manufactures	Value of Mineral Production	Value of 78 Farm Crops	Total Output	Per Capita Output[a]	Per Capita Output as Per Cent of U. S. Total
		(thousands of dollars)				(dollars)	(Per Cent)
Minnesota	3,507	$ 2,828,000	$ 453,543	$ 886,539	$ 4,168,082	$1,188	96%
Mississippi	2,291	1,022,000	220,194	552,902	1,995,096	784	63
Missouri	4,411	4,424,000	158,988	687,377	5,270,365	1,195	97
Montana	701	235,000	182,018	290,871	707,889	1,009	82
Nebraska	1,468	743,000	98,907	714,624	1,556,531	1,060	86
Nevada	391	112,000	85,477	21,042	218,519	559	45
New Hampshire	646	654,000	6,091	13,020	673,111	1,042	84
New Jersey	6,542	9,980,000	73,276	107,806	10,161,082	1,553	126
New Mexico	990	170,000	688,606	118,638	977,244	987	80
New York	17,697	19,510,000	259,074	370,753	20,139,827	1,138	92
North Carolina	4,787	4,618,000	44,525	885,607	5,548,132	1,159	94
North Dakota	645	72,000	94,703	514,966	681,669	1,057	86
Ohio	10,020	15,443,000	418,980	633,051	16,495,031	1,646	133
Oklahoma	2,450	965,000	877,534	337,329	2,179,863	890	72
Oregon	1,852	1,570,000	62,692	217,100	1,849,792	999	81
Pennsylvania	11,410	13,969,000	857,411	302,296	15,128,707	1,326	107
Rhode Island	877	950,000	2,807	5,411	958,218	1,093	88
South Carolina	2,498	2,117,000	36,479	304,733	2,458,212	984	80
South Dakota	707	142,000	54,116	380,605	576,721	816	66
Tennessee	3,742	3,344,000	160,725	374,440	3,879,165	1,037	84

Table 34 (continued)

State	Population (thousands)	Value Added by Manufactures	Value of Mineral Production	Value of 78 Farm Crops	Total Output	Per Capita Output[a]	Per Capita Output as Per Cent U. S. Total (Per Cent)
		(thousands of dollars)				(dollars)	
Texas	10,256	$ 7,054,000	$4,427,000	$ 1,466,747	$ 12,948,221	$1,262	102%
Utah	973	705,000	385,423	65,392	1,155,815	1,188	96
Vermont	397	309,000	24,391	39,699	373,090	940	76
Virginia	4,288	3,064,000	229,064	240,258	3,533,322	824	67
Washington	2,961	2,873,000	71,430	388,589	3,333,019	1,126	91
West Virginia	1,815	1,834,000	768,242	51,060	2,653,302	1,462	118
Wisconsin	4,066	5,344,000	66,841	452,539	5,863,380	1,442	117
Wyoming	335	83,000	502,237	65,254	650,491	1,942	157
U. S.	186,937	$189,951,000	$19,531,863	$21,493,217	$230,986,080	$1,235	100%

Source: Bureau of the Census, Statistical Abstract of the U. S. 1965.

[a]Per capita output estimated by dividing total output by population.

Table 35

Indicies of Economic Ability by State, Calculated with 1963 Data

State	Income[a]		Output[b]		Retail Sales[c]		Index of Economic Ability	
	Per Capita	Index	Per Capita	Index	Per Capita	Index	Total of 3 Indices	Average of 3 Indices
48 States	$2,448	100	$1,235	100	$1,293	100	300	100.0
Alabama	1,640	67	847	69	963	74	210	70.0
Arizona	2,203	90	934	76	1,320	102	268	89.3
Arkansas	1,570	64	881	71	1,040	80	215	70.7
California	2,983	122	1,175	95	1,532	118	335	111.7
Colorado	2,519	103	928	75	1,385	107	285	95.0
Connecticut	3,127	128	1,675	136	1,447	112	376	125.3
Delaware	3,271	134	1,463	118	1,485	115	367	122.3
Florida	2,157	88	576	47	1,376	106	241	80.3
Georgia	1,829	75	908	74	1,086	84	233	77.7
Idaho	1,988	81	1,128	91	1,374	106	278	92.7
Illinois	2,892	118	1,610	130	1,465	113	361	120.3
Indiana	2,437	99	1,823	148	1,354	105	352	127.3
Iowa	2,344	96	1,370	111	1,410	109	316	105.3
Kansas	2,263	92	1,197	97	1,279	99	288	96.0
Kentucky	1.774	72	1,092	88	1,017	79	239	79.7
Louisiana	1,778	73	1,446	117	994	77	267	89.0
Maine	1,999	82	902	73	1,203	93	248	82.3
Maryland	2,734	112	943	76	1,264	98	286	95.3
Massachusetts	2,811	115	1,217	98	1,403	109	322	107.3
Michigan	2,568	105	1,738	141	1,351	104	350	116.7

Table 35 (continued)

State	Income[a]		Output[b]		Retail Sales[c]		Index of Economic Ability	
	Per Capita	Index	Per Capita	Index	Per Capita	Index	Total of 3 Indices	Average of 3 Indices
Minnesota	$2,334	95	$1,188	96	$1,295	100	291	97.0
Mississippi	1,392	57	784	63	835	65	185	61.7
Missouri	2,486	102	1,195	97	1,348	104	303	101.0
Montana	2,215	90	1,009	82	1,378	107	279	93.0
Nebraska	2,300	95	1,060	86	1,428	110	291	97.0
Nevada	3,203	131	559	45	1,808	140	316	105.3
New Hampshire	2,252	92	1,042	84	1,365	106	282	94.0
New Jersey	2,878	118	1,553	126	1,385	107	351	117.0
New Mexico	1,981	81	987	80	1,178	91	252	84.0
New York	3.015	123	1,138	92	1,355	105	320	106.7
North Carolina	1,797	73	1,159	107	1,039	80	247	82.3
North Dakota	2,016	82	1,057	88	1,350	104	272	90.7
Ohio	2.516	103	1,646	80	1,131	87	343	114.3
Oklahoma	1,990	81	890	66	1,184	92	245	81.7
Oregon	2,467	101	999	84	1,446	112	294	98.0
Pennsylvania	2,452	100	1,326	107	1,219	94	301	100.3
Rhode Island	2,414	99	1,093	88	1,284	99	286	95.7
South Carolina	1,575	64	984	80	910	70	214	71.3
South Dakota	1,963	80	816	66	1,239	96	242	80.7
Tennessee	1,758	72	1,037	84	1,071	83	239	79.7

Table 35 (continued)

State	Income[a]		Output[b]		Retail Sales[c]		Index of Economic Ability	
	Per Capita	Index	Per Capita	Index	Per Capita	Index	Total of 3 Indices	Average of 3 Indices
Texas	$2,088	85	$1,262	102	$1,240	96	283	94.3
Utah	2,145	88	1,188	96	1,244	96	280	93.3
Vermont	2,042	83	940	76	1,348	109	268	89.3
Virginia	2,080	85	824	67	1,117	86	238	79.3
Washington	2,558	104	1,126	91	1,365	106	301	100.3
West Virginia	1,847	75	1,462	118	980	76	269	89.7
Wisconsin	2,365	97	1,442	117	1,275	99	313	104.3
Wyoming	2,460	101	1,942	157	1,451	112	370	123.3

Source: [a]Survey of Current Business, July, 1964.

[b]Calculated from data from U. S. Statistical Abstract.

[c]Sales Management, Inc.

Table 36

Tax Effort Index by State, 1963 Data

State	Tax Index[a]	Economic Ability Index[b]	Tax Effort Index[c]
U. S.	100.0	100.0	100.0
Alabama	59.3	70.0	84.7
Arizona	100.4	89.3	112.4
Arkansas	62.4	70.7	88.3
California	133.5	111.7	119.5
Colorado	106.6	95.0	112.2
Connecticut	112.9	125.3	90.1
Delaware	108.5	122.3	88.7
Florida	83.3	80.3	103.7
Georgia	69.2	92.7	89.1
Idaho	84.2	92.7	90.8
Illinois	105.5	120.3	87.7
Indiana	89.8	127.3	70.5
Iowa	101.8	105.3	96.7
Kansas	104.3	96.0	108.6
Kentucky	66.7	79.7	83.7
Louisiana	84.7	89.0	95.2
Maine	86.4	82.3	105.0
Maryland	98.4	95.3	103.3
Massachusetts	114.9	107.3	107.1
Michigan	108.7	116,7	93.1
Minnesota	112.5	97.0	116.0
Mississippi	61.7	61.7	100.0
Missouri	82.3	101.0	81.5
Montana	100.3	93.0	107.8
Nebraska	83.4	97.0	85.0
Nevada	131.2	105.3	124.6
New Hampshire	87.0	94.0	92.6
New Jersey	103.5	117.0	88.5
New Mexico	84.1	84.0	100.1
New York	137.4	106.7	128.8

Table 36 (continued)

State	Tax Index[a]	Economic Ability[b] Index	Tax Effort Index[c]
North Carolina	70.0	82.3	85.1
North Dakota	92.7	90.7	102.2
Ohio	85.6	114.3	74.9
Oklahoma	81.0	81.7	99.1
Oregon	103.2	98.0	105.3
Pennsylvania	87.6	100.3	87.3
Rhode Island	97.7	95.7	102.2
South Carolina	59.5	71.3	83.4
South Dakota	90.6	80.7	112.3
Tennessee	64.3	79.7	80.7
Texas	79.4	94.3	84.2
Utah	91.8	93.3	98.4
Vermont	101.2	89.3	113.3
Virginia	67.6	79.3	85.2
Washington	110.5	100.3	110.2
West Virginia	76.3	89.7	85.1
Wisconsin	120.6	104.3	115.6
Wyoming	107.1	123.3	86.9

Source: [a]Calculated from data in Facts and Figures on Government Finances, 13th Biennial Ediction/1965.

[b]Table 33.

[c]Tax Index divided by Economic Ability Index.

states (excluding Alaska and Hawaii) the 1963 index includes only the same 48 states. The availability of indexes for two separate years facilitates an examination of Oklahoma's relative position both nationally and regionally over a six year interval.

In 1957, Oklahoma's income was 80; the output index number was 72; and the retail sales index number was 89. Thus Oklahoma's economic ability index number was 80, which ranked Oklahoma 39th among 48 states. Among the eight regional states, only Arkansas had a lower economic ability index number than Oklahoma.

For 1963, Oklahoma's income index number was 81; the output index number was still at 72; and the retail sales index was slightly higher at 92. The economic ability index for Oklahoma for 1963 was 81.7. The relative position of Oklahoma had improved only slightly. In 1963, Oklahoma had the 38th highest economic ability index number among 48 states, up one position from 1957. Oklahoma again had next to the lowest economic ability index number of the group of regional states, and Arkansas again had the lowest.

Oklahoma's tax index for 1957 was 87, which was lower than that of thirty-two other states, and fifth highest in the regional group. In 1963, the tax index for Oklahoma was 81.0, which ranked Oklahoma 37th among the 48 states. Oklahoma, in 1963, ranked sixth on the tax index among the other regional states.

The principal objective of this index was to estimate the tax effort index for Oklahoma and to compare that index with the indexes for other states, both nationally and regionally. In 1957, Oklahoma's tax effort index number was 108.7, and Oklahoma ranked 16th highest

among the 48 states. Of the seven surrounding states, only Colorado and Louisiana had better tax efforts than Oklahoma, although Kansas was not far below Oklahoma. In 1963, Oklahoma's tax effort index was 99.1, and Oklahoma had dropped to 22nd place among the 48 states. Oklahoma also dropped one place in the regional group, from third in 1957 to fourth in 1963. New Mexico joined Colorado and Louisiana in putting forth a stronger tax effort than Oklahoma. However, Oklahoma's effort was significantly better than the efforts by Arkansas, Texas, and Missouri.

Advisory Commission on Intergovernmental Affairs Report

In the study conducted by the Advisory Commission on Intergovernmental Affairs, concerning tax effort by state and local governments, the group defined tax effort as the extent to which states and their local governments used the fiscal capacity available to them. The comparison of the actual tax collections of a state (including the local governments) with the hypothetical yield of a representative tax system was one measure of tax effort.[9]

Oklahoma's 1960 yield was 94, with the national average being 100 on the index for the representative tax system. Twenty-eight states in the nation rated higher than oklahoma. The other seven regional states rated from 67 for Texas to 106 for Louisiana. Colorado was second within the group with a yield index number of 100, and Kansas was third with an index number of 96. Oklahoma ranked fourth highest

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[9]Advisory Commission on Intergovernmental Relations, op. cit.

in the regional group, and did not make an especially strong tax effort on a scale which included local taxes as well as state taxes. Moreover, the representative tax system gave heavy weight to the property-tax base, used extensively by the local governments in Oklahoma, and gave less weight to the other tax bases such as the income tax.

Summary

Oklahoma's current relative tax effort was evaluated by the per capita tax collections approach, for both state and state-local taxes; by the tax collections as a percentage of personal income approach; and through the use of two indexes: the Frank Index, which measured tax "sacrifice," and the Tax Effort Index. Tax capacity for Oklahoma was measured in two ways: per capita personal income (personal income was actually squared in the case of the Frank Index) and the economic ability index of the Tax Effort Index.

Oklahoma's tax capacity or economic ability to pay taxes proved to be relatively low, whether measured by per capita personal income or by the economic ability index. A low tax capacity naturally places limitations on the amount of revenue a state government may extract from the residents of the state in the form of taxes. The major question is: Has Oklahoma approached the limits of the state's tax capacity, or, more accurately, the capacity of the residents of Oklahoma to pay taxes?

Per capita tax collections in 1965 in Oklahoma at the state level found Oklahoma ranked eighteenth highest in the nation and third highest in the group of regional states. State-local per capita tax

collections for Oklahoma in 1965, however, ranked thirty-fourth highest in the nation, and seventh highest in the group of eight regional states. In this respect, Oklahoma was found to be somewhat lacking relative to the other states.

The same pattern held true when tax effort was estimated by the taxes as a percentage of income approach. For state taxes alone, as a percentage of Oklahoma's personal income, Oklahoma ranked fourteenth in the nation in 1965, and third highest in the regional group. The addition of local taxes to the percentage figure dropped Oklahoma to twenty-eighth in the nation, and fifth in the regional group.

By the Frank Index, Oklahoma in 1965 ranked twenty-third in the nation, and fourth in the regional group. Oklahoma's index number was much closer to those regional states ranking below Oklahoma on the Frank Index than to the regional states ranking above. By the Tax Effort Index, using 1963 data, Oklahoma ranked twenty-second on the national scale, and fourth in the regional group.

Apparently Oklahoma is in a position to make a somewhat stronger tax effort, especially in view of the fact that local taxes in Oklahoma are rather light. Even though the state does have a modest tax capacity, this capacity has not been used to its fullest extent. Therefore, attention can now be directed toward studying the possibilities of increasing state tax revenue through selected changes in the state's income tax, general sales tax, and severance tax, and also toward studying the possibility of rendering local governments of Oklahoma less of a financial burden on the state government through selected revisions in the property tax.

CHAPTER IV

THE POSSIBILITY OF INCREASING OKLAHOMA STATE INCOME TAX REVENUE

Revenue from taxes on personal income and corporate income comprised a source of revenue for 33 states in 1965, including Oklahoma. The relative importance of the revenue from state personal income taxes in 1965 varied widely from state to state, ranging from 48.7 per cent of total state tax collections in Oregon to 1.5 per cent of total state tax collections in New Jersey, and 1.6 per cent in Tennessee. Eight of the 33 states received approximately one-third or more of total state tax revenue from the personal income tax, while eleven of the 33 states received less than 10 per cent of total state tax collections from the personal income tax.[1]

State Personal Income Taxes

The structures of the various state personal income taxes exhibit considerable variation from state to state. Differences emerge in definitions of taxable income, tax rates, personal exemptions, brackets, and income splitting. State personal income tax legislation also differs as to the allowance of the federal income taxes paid as a deduction

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[1]Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes. A-27, October 1965, pp. 80-81.

for state income tax purposes. A detailed comparison of the personal income tax structures of all the states utilizing the income tax are not attempted in this study. Instead, the comparison is limited to the income tax structure of the states surrounding Oklahoma. A few general observations of state personal income tax laws are necessary, however, to establish the proper perspective of the regional states among the other states levying personal income taxes.

All states levying personal income taxes employ personal exemptions. These exemptions are usually employed as a means of excluding an amount of income thought equivalent to the minimum subsistence level for the average person or family from the income tax. Another objective or effect of the personal exemptions is to make it unnecessary for persons with small incomes to file income tax returns, thus achieving economies of time and costs for both the persons involved and the state government.[2]

As of 1965, all but five states granted exemptions in the form of deductions from adjusted gross income, while the five exceptions provided tax credits rather than deductions.[3] Additional exemptions are often provided for old age and blindness. Several states allow both exemptions in the form of deductions and tax credits. Personal exemptions in 1965 ranged from $600 to $5,000 for single persons with no dependents. Married couples' exemptions ranged from $1,200 to $7,000.

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[2]Emanuel Melichar, State Individual Income Taxes (The University of Connecticut Storrs Agricultural Experiment Station, Monograph 2, July 1963), pp. 45-46.

[3]Advisory Commission on Intergovernmental Relations, op. cit., pp. 90-93.

The exemption allowed a married couple is usually twice the amount allowed a single person. Exemptions for dependents ranged from $300 to $800. Mississippi was the only state in 1965 not allowing an exemption for dependents.

It is difficult to make a general statement on state income tax rates. The majority of the states employ progressive rates, but the differing widths of the tax brackets have an important effect on the tax severity. Several states, particularly Indiana, employ a flat rate or nearly flat rate tax structure. Indiana's minimum rate for the lowest bracket was 0.75 per cent, while the maximum rate for the lowest bracket was slightly over 3.0 per cent. The highest rate imposed by any state for any bracket was slightly over 14.0 per cent of taxable income.

As mentioned above, the width of the tax brackets varied from state to state. The narrowest bracket was $500, with the widest bracket appearing in Louisiana, where the first bracket was $10,000 wide, and the second was $40,000 wide. Brackets of $1,000 were quite common. Income-splitting has the effect of doubling the income brackets used in the computation of tax liabilities on joint returns of husband and wife as compared with the income brackets used to compute taxes on single persons. In 1965, ten states, including Oklahoma, allowed income tax splitting.[4]

States also differ as to the definition of taxable income and the deduction of federal income tax. In 1965, eighteen states allowed all

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[4] Ibid., p. 92.

or a part of the federal income tax to be deducted from the taxable income at the state level. In defining taxable income for state income tax purposes, many states exclude specific types of income and allow various deductions from net income. A movement appears to be under way in some states to adopt the federal definition of net income as the income base for state purposes.[5] The effect of eliminating the deductibility of the federal income taxes paid will be considered in this study; however, no detailed analysis of the definition of Oklahoma taxable income will be attempted.

History of the Oklahoma State Income Tax

Oklahoma was one of the first states to adopt a tax on the income of the resident individuals and corporations of the state. A progressive income tax law passed in Oklahoma in 1908 but met with a fate similar to the fate met by its predecessors in the other states. The law was somewhat different in that it taxed gross income rather than net income, and consequently it was immediately unpopular because many persons believed that net income should have been taxed rather than gross. Provisions for enforcement were inadequate, and thus the annual yield was less than $5,000.[6]

The 1908 Oklahoma income tax law was repealed in 1915, subsequent to the enactment of the second income tax law. The 1915 Oklahoma income tax law imposed the income tax on residents and non-resident

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[5]George W. Thatcher, Tax Revision Alternatives for the Tax System of Ohio (Columbus, Ohio: Ohio Tax Study Committee, 1962), pp. 170-171.

[6]Emanuel Melichar, op. cit., p. 14.

individuals only; corporations were not included. In 1931, a new income tax law was enacted by the Oklahoma Legislature, under which corporations and state banks were made subject to payment of an income tax.

The present Oklahoma Income Tax Law is similar to its predecessors. The basic law was enacted in 1935, and the changes since then have been made chiefly in relation to exemptions, credits, and rates of tax. In 1947, the rates of tax were lowered; the brackets were widened; and the personal exemptions were increased. (At the same time, the tax on corporate income was lowered from 6 per cent to 4 per cent). The Legislature also provided an optional tax on personal incomes similar to the federal optional tax, and provided for an optional standard deduction.[7]

The Oklahoma Legislature in 1939 enacted a community property law which affected property owned separately by husband or wife and property owned by them in common. The provisions of the 1939 act were made mandatory rather than elective by a 1945 enactment. In 1949, the community property law was repealed and provision was made for income-splitting by spouses similar to that of the federal government. In 1961, a withholding provision was enacted by the Legislature.[8]

Oklahoma's Reliance on the Income Tax

Total state income tax collected by the State of Oklahoma rose

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[7] Prentice-Hall Tax Reporting Service: Oklahoma State and Local Taxes (Section on Income Tax).

[8] Ibid.

sharply from fiscal year 1961 to fiscal year 1966 (see Table 37). In 1961 Oklahoma collected more than $32.5 million from the personal and corporate income taxes combined. This amount had grown to slightly more than $57.5 million in 1966. The greatest increases occurred between 1961 and 1962, and again between 1965 and 1966. Income tax revenue for fiscal years 1963 and 1964 remained about the same, and increased by only $2 million in 1965.

State income tax collections in Oklahoma as a percentage of total tax revenue, as reported by the Oklahoma Tax Commission, fluctuated throughout the interval from 1961 through 1966. Overall, the trend was definitely upward. The 1961 income tax collections accounted for 12.10 per cent of the total tax collections. This percentage rose to 15.24 per cent in 1963, then fell to 14.60 per cent in 1964. For the last two years of the period, the percentage of total tax revenue in the form of income tax revenue again rose, so that in 1966 income tax collections were equivalent to 15.49 per cent of the total tax collections. Thus absolutely, as well as relatively, the revenue derived from state income taxes in Oklahoma increased from 1961 to 1966. In Chapter III, however, it is pointed out that the sales tax revenue and motor fuel tax revenue are both larger than the income tax revenue.

Comparison with Surrounding States

In 1963, Oklahoma collected $19,023,000 from the individual or personal income tax, and ranked fourth highest in the group of eight regional states, or rather, seven regional states, as Texas does not levy an income tax (see Table 38). Missouri, Colorado, and Kansas

Table 37

Personal and Corporate Income Tax Collections as a Percentage of Total Tax Collections in Oklahoma for Selected Years

Year	Total Income Tax Collected (Dollars)	Income Tax Collections as a Percentage of Total Tax Collections (Percentage)
1966	$57,570,286	15.49%
1965	49,690,585	14.69
1964	47,448,612	14.60
1963	47,161,430	15.24
1962	43,696,849	14.81
1961	32,559,078	12.10

Source: Oklahoma Tax Commission, Biennial Report of the Oklahoma Tax Commission. Fifteenth, Sixteenth, and Seventeenth Reports. Oklahoma City, Oklahoma.

Table 38

State Revenue from Individual and Corporate Income Taxes
for Selected States, 1963 and 1965

State	Individual Income Tax Revenue		Corporate Income Tax Revenue	
	1963	1965	1963	1965
Arkansas	$14,046	$17,922	$10,619	$13,766
Colorado	46,450	59,946	21,036	23,929
Kansas	28,281	33,084	10,934	11,536
Louisiana	18,530	23,515	17,516	27,536
Missouri	65,776	70,539	10,450	13,333
New Mexico	14,210	16,219	------	------
Oklahoma	19,023	26,484	20,673	17,084

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1963, Table 5, p. 11, and Compendium of State Government Finances in 1965, Table 7, p. 21.

each collected more income tax revenue than Oklahoma. In 1965, Oklahoma's personal income tax collections had risen to $26,484,000, but the relative positions of the top six states remained unchanged. Oklahoma again was fourth highest in the group.

Oklahoma collected $20,673,000 from the state's corporate income tax in 1963, which placed the state second highest in the group for 1963, and less than $1 million below first place Colorado. Absolutely and relatively, Oklahoma's corporate income tax collections fell in 1965 to $17,084,000, and third place, respectively. Corporate income tax collections in 1965 for each of the other five states (New Mexico excluded) of the region were up from the 1963 collections. Louisiana, for example, increased corporate income tax revenue by almost $10 million between 1963 and 1965.

Individual income tax collections in 1963 were exceeded by corporate income tax collections only in Oklahoma, where the margin was less than $2 million. In 1965, the single exception was Louisiana, with corporate tax collections almost $4 million greater than individual tax collections. Generally, individual income tax revenue was more important for the regional states than corporate income tax revenue.

Per capita amounts received by the regional states in 1965 from the individual income tax ranged from a high of $30.44 in Colorado to $6.55 per person in Louisiana (see Table 39). Oklahoma was ranked fifth in the group with an average collection of $10.67 per person. Colorado, with the largest per capita revenue, collected almost three times as much revenue per person from personal income tax as did

Table 39

Per Capita Revenue from Individual Income Tax for Selected States, 1963 and 1965

State	1965	1963
	(Dollars)	
Arkansas	$ 9.14	$ 7.56
Colorado	30.44	23.69
Kansas	14.81	12.71
Louisiana	6.65	5.42
Missouri	15.68	15.21
New Mexico	15.76	13.96
Oklahoma	10.67	7.65

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1963, Table 36, p. 47; and Compendium of State Government Finances in 1965, Table 4, p. 11.

Table 40

Per Capita Revenue from Corporate Income Tax for Selected States, 1963 and 1965

State	1965	1963
	(Dollars)	
Arkansas	$ 7.02	$ 5.72
Colorado	12.15	10.73
Kansas	5.16	4.91
Louisiana	7.74	5.12
Missouri	2.96	2.41
New Mexico	----	----
Oklahoma	6.88	8.31

Source: U. S. Bureau of Census, Compendium of State Government Finances in 1963, Table 36, p. 47; and Compendium of State Government Finances in 1965, Table 4, p. 11.

Oklahoma. Moreover, Oklahoma's relative ranking was virtually the same in 1963 and 1965. Colorado collected approximately twice the revenue per capita as the second and third place states, namely, New Mexico and Missouri.

Oklahoma's per capita revenue from the corporate income tax fell from $8.31 in 1963 to $6.88 in 1965. Oklahoma's relative ranking thus slipped from second to fourth place. Colorado ranked highest among the regional states in both years. Arkansas and Louisiana in 1965 both collected more corporate income tax revenue than did Oklahoma.

State Personal Income Tax as Percentage of Personal Income

Oklahoma's state personal income tax collections in 1965 were equal to 0.47 per cent of the personal income of the state (see Table 42). Louisiana was the only state in the region with a smaller ratio than Oklahoma. Colorado, by comparison, levied an income tax on personal income equivalent to 1.13 per cent of the total personal income of Colorado residents. Oklahoma was also ranked sixth in 1963, while Colorado again was first. Not only was Colorado first in both years in terms of individual income tax revenue as a percentage of total state personal income, but the increase in percentage points (0.15) for Colorado was the largest of the group. Missouri, by contrast, secured a smaller percentage of personal income through income tax in 1965 than in 1963. Oklahoma advanced 0.08 percentage points between 1963 and 1965, with personal income tax revenue rising from 0.39 per cent of personal income in 1963 to 0.47 per cent in 1965.

Basically, what this demonstrated was that Oklahoma tends to place

Table 41

Personal Income and State Individual Income Tax Collections for Selected States, 1963 and 1965

State	1965 Personal Income	1965 Income Tax Revenue	1963 Personal Income	1963 Income Tax Revenue
	(Thousands of dollars)			
Arkansas	$3,581,000	$17,922	$ 3,103,000	$14,046
Colorado	5,282,000	59,946	4,750,000	46,450
Kansas	5,932,000	33,084	5,319,000	28,281
Louisiana	7,359,000	23,515	6,284,000	18,530
Missouri	11,961,000	70,539	10,402,000	65,776
New Mexico	2,224,000	16,219	2,032,000	14,210
Oklahoma	5,603,000	26,484	4,880,000	19,523

Source: Income data was obtained from the Survey of Current Business, July 1966, Vol. 46, Number 7.

Table 42

Personal Income Tax Revenue as a Per Cent of Total State Personal Income, Selected States 1963 and 1965

State	1965	1963
	(Percentages)	
Arkansas	0.50%	0.45%
Colorado	1.13	0.98
Kansas	0.56	0.53
Louisiana	0.32	0.30
Missouri	0.59	0.63
New Mexico	0.73	0.70
Oklahoma	0.47	0.39

Source: Calculated from data of Table 41.

less reliance and emphasis on the income tax as a revenue producer than do several other states in the region, particularly Colorado. To the extent that Oklahoma wishes to increase state revenue, it seems plausible that additional revenue might be generated by revising the state's income tax structure. The feasibility of that hypothesis, as well as the expected increases in revenue from the adoptions of several possible alternative revisions in the personal income tax are considered in the remainder of this chapter. Oklahoma's present personal or individual income tax structure will first be examined and compared with the structures of the income taxes of the other regional states levying income taxes. The comparison will be made with the expectation of arriving at several alternatives for changes in the Oklahoma law expected to contribute to increases in income tax revenue. Former Oklahoma rates, brackets, and personal exemptions will also be reviewed in an effort to evaluate the worthiness of reverting to a previous law, or at least to judge certain features of the previous law versus the present law.

Oklahoma's State Individual Income Tax*

Individuals taxable under the Oklahoma state individual income tax include resident and non-resident individuals deriving income from property owned or business conducted in the state. Resident individuals are taxable on wages and other compensation for personal services

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*Unless otherwise noted, the interpretation of the income tax law for this section is the Prentice-Hall Tax Reporting Service: Oklahoma State and Local Taxes.

earned within and without the state. A "resident" is defined as any natural person domiciled in Oklahoma or who maintains a place of abode in the state, who spends seven months of the taxable year within the state. Once abode is established in Oklahoma, time spent outside the state on vacation, health, or business counts as time spent within the state. Non-resident individuals are taxable on their entire net income derived from wages, commissions, or earnings for services in the state of Oklahoma.

The tax is based on entire net income (gross income minus allowable deductions). Adjusted gross income is gross income minus trade and business deductions, losses, and a credit for dividends. In addition to personal exemptions of: $500 per dependent who earns less than $600 or who is a student; $1000 for the head of a household; or $2000 if married and living with spouse; all taxes paid within the taxable year are deductible, with certain exceptions.

Income not included in gross income includes:

1. proceeds from life insurance policies;
2. amounts received from life policies for reasons other than death;
3. the value of property received by gift or descent;
4. amounts received under workman's compensation;
5. first $1,500 received during a National Emergency by members of the United States Armed Forces;
6. amounts received by scholarship;
7. social security benefits;
8. up to $5,000 death benefits;
9. foreign earnings by Oklahoma residents.

The present rates on individuals, resident and non-resident, are as follows for Oklahoma:

1. one per cent of the first $1,500 of net income in excess of credits against net income;
2. two per cent of the next $1,500;

3. three per cent of the next $1,500;
4. four per cent of the next $1,500;
5. five per cent of the next $1,500;
6. six per cent of excess over $7,500.

Regional Comparison of Rates, Brackets, and Personal Exemptions

Texas is the only one of the eight regional states not levying a state income tax. The rates, brackets, and personal exemptions of the personal income taxes of the seven remaining states, including Oklahoma, differ from state to state. A brief description* of the rates, brackets, and size of personal exemptions of Arkansas, Louisiana, New Mexico, Missouri, Kansas, and Colorado will be followed by comparison of tax liabilities for hypothetical families and individuals at selected income levels.

Arkansas grants tax credits rather than personal exemptions. A single individual receives a tax credit of $17.50; a married person living with his spouse or a head of the family receives $35.00 credit. Each dependent is given a credit of $6.00. The Federal income tax is also deductible. Rates and brackets for Arkansas are:

1 per cent on the first $3,000 of taxable income;
2 per cent on the second $3,000;
3 per cent on the next $5,000;
4 per cent on the next $14,000;
5 per cent on the excess over $25,000.

Kansas allows a personal exemption of $600 for each exemption acceptable on the Federal income tax return. The Federal income tax paid is also deductible under the Kansas law. The tax rates and brackets are:

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* Unless otherwise noted, the source of information for this section is the Prentice-Hall Tax Reporting Service for the respective state.

2 per cent of taxable income from 0 to $1,999;
3½ per cent on the next $1,000;
4 per cent on the next $2,000;
5 per cent on the next $2,000;
6½ per cent on all taxable income in excess over $7,000.

Louisiana grants exemptions of $400 for each and every dependent. The Federal income tax is deductible. The rates and brackets are simple and wide:

2 per cent of the first $10,000 above credit;
4 per cent on the next $40,000;
6 per cent on the excess over $50,000.

New Mexico allows the $600 federal exemption at the state level. However, married people or individuals supporting dependents pay no tax if their net income is $1,500 or less. New Mexico also allows the Federal income tax to be deducted for state tax purposes. The rates and brackets on taxable income:

1½ per cent on the first $10,000;
3 per cent on taxable income between $10,000 and $20,000;
4½ per cent between $20,000 and $100,000;
6 per cent on excess over $100,000.

Missouri's personal exemptions are $1,200 if the taxpayer is single or married and not living with his spouse; $2,400 if married and living with spouse, or a head of a household. Each dependent is allowed $400 if receiving over half support from taxpayer related by blood or marriage, and having less than $400 income during the taxable year. All taxes are deductible--federal income, excise, and stamp taxes as well as state and local taxes. The rates and brackets are:

1 per cent on the first $1,000 of taxable income;
1½ per cent on the second $1,000;
2 per cent less $15 for incomes of $2,000-$3,000;
2½ per cent less $30 for incomes of $3,000-$5,000;
3 per cent less $55 for incomes of $5,000-$7,000;

3½ per cent less $90 for income of $7,000-$9,000;
4 per cent less $135 on incomes exceeding $9,000.

A resident individual in Colorado is allowed a personal exemption of $750 for each exemption for which he is entitled to a deduction for the federal income tax purposes. Any person or organization exempt under the Federal law is also exempt under the Colorado. The Colorado Income Tax Act of 1964 is based on the Federal income tax law. The Colorado adjusted gross income of a resident means his federal adjusted gross income for the taxable year with certain additions and subtractions. A tax credit is allowed by Colorado equal to an amount calculated by dividing the Colorado taxable income by 200, provided the resulting credit does not exceed $9,000. The tax credit is allowed for sales taxes on food. If the credit exceeds the tax liability, the taxpayer can apply for a refund.[9]

The rates and brackets for the Colorado state income tax are as follows:

Taxable Income	Tax Rate
$ 0-$1,000	3 per cent
$1,000-$2,000	$ 30 plus 3½% of excess over $1,000
$2,000-$3,000	$65 plus 4% of excess over $2,000
$3,000-$4,000	$105 plus 4½% of excess over $3,000
$4,000-$5,000	$150 plus 5% of excess over $4,000
$5,000-$6,000	$200 plus 5½% of excess over $5,000
$6,000-$7,000	$255 plus 6% of excess over $6,000
$7,000-$8,000	$315 plus 6½% of excess over $7,000
$8,000-$9,000	$380 plus 7% of excess over $8,000
$9,000-$10,000	$450 plus 7½% of excess over $9,000
Over $10,000	$525 plus 8% of excess over $10,000.

In addition to the tax imposed upon Colorado taxable income, there is

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[9]Advisory Commission on Intergovernmental Relations, op. cit., pp. 97 and 99.

levied for each taxable year upon the Colorado gross income of every resident individual, a surtax of two per cent upon Colorado income which exceeds $5,000 and consists of or derived from dividends and interest.

As pointed out above, the statutory rates, brackets, and personal exemptions of the seven regional states, including Oklahoma, vary substantially. Table 43 shows the effective rates of state personal income taxes for selected adjusted gross income levels for a married couple with two children. The term "effective rate" is defined as the ratio of tax liability to the Federal adjusted income.[10] Oklahoma had the next-to-lowest effective rates of the group. Colorado had the highest effective rate for the top two income groups. Kansas had relatively high effective rates for incomes of $5,500; $7,500; and $10,000; then fell behind Colorado at the higher levels of income.

The Advisory Commission on Intergovernmental Relations have classified state income taxes as having either low, moderate, or high effective rates, based upon average effective rates.[11] All the regional states except Colorado fell in the low effective rate category; that is, having an average effective rate of less than 1.0 per cent. Colorado, with an average effective rate of 1.4 per cent, was in the group of states with moderately effective rates. Average effective rates for the other six states were 0.7 per cent for Arkansas and Kansas; 0.4 per cent for Louisiana; 0.8 per cent for Missouri; and 0.6 per cent for both

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[10] Ibid.

[11] Ibid.

Table 43

Effective Rates[a] of State Personal Income Taxes for Selected Gross Income Levels, Married Couple with Two Dependents, 1965, for Selected States

State	Adjusted Gross Income Class[b]						
	$2,500	$3,500	$5,500	$7,500	$10,000	$17,500	$25,000
Arkansas	----%	----%	0.4%	0.9%	1.3%	2.0%	2.5%
Colorado	-1.1[c]	-0.7	0.3	0.9	1.5	2.4	3.2
Kansas	----	0.5	1.0	1.2	1.8	1.9	2.4
Louisiana	----	----	----	0.1	0.4	0.8	0.9
Missouri	----	----	0.4	0.7	1.0	1.4	1.7
New Mexico	----	0.3	0.6	0.7	0.8	0.9	0.9
Oklahoma	----	----	0.3	0.4	0.7	1.1	1.6

Source: Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes, October 1965. Table 22, p. 99.

[a]Effective rates are computed as the ratio of tax liability to adjusted gross income.

[b]Adjusted gross income equals income after business deductions but before personal exemptions and other allowable deductions.

[c]Negative effective rates result from credits allowed for sales taxes paid on food.

Oklahoma and New Mexico.

State personal income tax revenue in 1965 as a percentage of 1964 federal taxable income ranged from 2.52 per cent in Colorado to 0.89 per cent in Louisiana (see Table 45). Oklahoma's 1965 state personal income tax revenue amounted to 1.21 per cent of 1964 federal taxable income in Oklahoma, which ranked the state next to the lowest in the group.

Oklahoma and Colorado had approximately the same size of total federal taxable income in 1964, as well as approximately equal number of federal taxable returns, yet Colorado levied more than twice as much state personal income tax revenue in 1965 as Oklahoma (see Table 44). Difference in distribution of taxable income among taxpaying units could not have been a major factor as the total federal tax liability in 1964 was about the same size in Oklahoma as in Colorado, which seems to indicate that the distribution of taxable income among tax-paying units does not differ significantly between the two states. Nor is there any sound reason for expecting the distribution of taxable income in 1965 to be substantially different than in 1964 for any state.

The evidence seems to indicate that Oklahoma has a weak personal income tax relative to the income taxes of the other regional states. The next question that arises is: How can Oklahoma's personal income tax be made more productive and how much increased revenue could be expected if the tax should be made more productive? There are undoubtedly numerous ways by which the tax could theoretically be made more productive, but not all of these methods would be economically or politically acceptable. This author will arbitrarily examine only a

Table 44

Individual Federal Income Taxable Income Returns, Taxable Income, and Income Tax Liability for Selected States in 1964

State	Taxable Returns	Taxable Income	Tax Liability
		(Thousands of dollars)	
Arkansas	330,863	$1,144,871	$ 224,945
Colorado	519,522	2,200,230	437,818
Kansas	565,957	2,261,855	440,119
Louisiana	676,273	2,641,855	542,096
Missouri	1,152,971	4,957,718	1,014,485
New Mexico	205,640	816,395	159,819
Oklahoma	552,058	2,188,067	437,788

Source: U. S. Treasury Department, Internal Revenue Service, Statistics of Income...1964: Individual Income Tax Returns, p. 97.

Table 45

State Income Tax Collections for 1965 as Percentage of Federal Taxable Income, 1964, for Selected States

State	Federal Taxable Income[a] for 1964	State Personal Income Tax[b] Collections 1965	State Tax Collections as a Percentage of Federal Taxable Income
	(Thousands of dollars)		(Percentage)
Arkansas	$1,144,871	$17,962	1.57%
Colorado	2,200,230	59,946	2.52
Kansas	2,261,855	33,084	1.46
Louisiana	2,641,369	23,515	0.89
Missouri	4,957,718	70,539	1.42
New Mexico	816,395	16,219	1.99
Oklahoma	2,188,067	26,484	1.21

Source: [a]U. S. Treasury Department, Internal Revenue Service, Statistics of Income... 1964; Individual Income Tax Returns, p. 97.

[b]Compendium of State Government Finances in 1965, Table 7, p. 21.

few of the ways by which Oklahoma's personal income tax could be made more productive. These alternatives were selected because they appeared both economically, and to some extent, politically acceptable and feasible.

Increasing the Productivity of Oklahoma's Personal Income Tax

The yield of a state income tax depends upon two basic factors: the size of the tax base (the amount of taxable income) and the level of the tax rates. This yield can be increased by increasing the tax base, either through statutorially redefining taxable income by eliminating the exclusion of certain kinds of income, or by eliminating and/or reducing the size of the personal exemptions or tax credits. Naturally, neither method precludes the other. The taxable income can be redefined at the same time exemptions or credits are being reduced.

Increasing the tax rates is the second way by which the tax yield could be increased. (Of course the base could be increased at the same time the rates are being increased.) Rate increases for state income taxes can be achieved in two ways. Statutory rate increases with no widening of tax brackets would result in increases in the real or effective tax rates. An alternative or complementary move would be to reduce the width of the brackets. The effect would be an increase in the real or effective tax rate for some levels of income, although there would be no change in the tax rates at other income levels. For example, it the income brackets were $1,500 wide, and were reduced to $1,000, the effect would be neutral on persons whose incomes were less than $1,000 (assuming no statutory tax rate increase) but for those persons with

taxable incomes between $1,000 and $1,500 the rates would be increased, as those persons would be moved to a higher bracket (assuming a progressive rate structure.) Persons whose incomes were between $2,000 and $3,000 would be moved to a higher bracket with higher rates, but there would be no change for people in the $1,500 to $2,000 taxable income bracket.

In this chapter five possible alternatives will be examined by which Oklahoma could expect to collect additional perconal income tax revenue. For each alternative proposal, an estimate of the expected increase will be made. The selected alternatives include:

(1) Application of the rates, brackets, and personal exemptions of pre-1947 Oklahoma personal income tax;

(2) The elimination of the deductibility of the Federal income tax;

(3) Application of the Colorado rates, beackets, and personal exemptions;

(4) Application of the Colorado rates, brackets, and personal exemptions plus the elimination of the deductibility of the Federal income tax;

(5) The adoption of a two per cent flat rate income tax.

Methodology

In order to accurately estimate the income tax liability for a state, data relating to certain characteristics of the income of the residents of the state must be available. The size of taxable income is important, but if progressive rates are used, the distribution of taxable income must be known as well as the number of tax-paying units falling into each bracket of the income distribution. Where personal

exemptions are used, which is virtually universal, family size and the number of single individuals paying the tax must be known.

Statistics on the above data are virtually unobtainable for recent years in oklahoma. An unpublished report by the Income Tax Division of the Oklahoma Tax Commission containing the number of personal income tax returns filed in 1963 in Oklahoma by size of tax liability per return was obtained. With these basic data, the average size of taxable income which would give rise to the reported amount of tax liability per return is estimated.

The process of estimating the taxable income per return, which is described below, is rather clumsy and perhaps lacking in sophistication and rests upon several basic assumptions, the validity of which no doubt can be questioned. This method of estimation was chosen for two reasons. First, it is based upon the findings of an unofficial study conducted by the Income Tax Division several years ago, and the Income Tax Division now has adopted this method for use when doing estimations and projections for members and committees of the Oklahoma Legislature. Secondly, it is the most reliable method available at the current time, given the type of data available.

Procedure for Estimating Taxable Income

The data received from the Income Tax Division of the Oklahoma Tax Commission are presented in Table 45. The taxable returns were divided into categories of amounts of tax liability. The number of returns and total amount of tax liability for each category was given. The categories were one dollar wide for liabilities per return up to $19; then

became five dollars wide for liabilities up to $99; fifty dollars wide up to liabilities of $999; $499 wide up to liabilities of $9,999; $999 wide up to liabilities of $19,999; and then became $19,999 in width for all liabilities greater than $19,999.

The increasing size of the tax liability categories reduced some the validity of the estimates of taxable income. To estimate taxable income by category, it was assumed that each return had a tax liability approximately equal to the middle value of the respective category. The size of taxable income which would give rise to that amount of tax liability was then calculated, taking into consideration the progressive rates, and this resulting income figure was assumed to be the average taxable income per return for that particular category (see Table 46). Naturally, considerable room for error of estimation exists in such a method of estimation, and increase as the width of the tax liability category widens. However, this is the best estimate of the distribution of taxable income the author is able to develop, and as indicated above, this is the method of estimation utilized by the Income Tax Division of the Oklahoma Tax Commission for similar research programs.

The number of returns with tax liability of $19 or less totaled 233,177, which was equivalent to 53.58 per cent of the total number of tax returns. The total tax liability for this group of returns, was $2,116,195 or 10.1 per cent of the total tax liability. The number of returns with tax liability between $20 and $99 was 169,269, an amount equivalent to 38.9 per cent of the total returns. This group contributed $7,116,501 to total tax liability, which was equal to 33.98 per

Table 46

Number of Individual Income Tax Returns by Amount of Liability Per Return for the State of Oklahoma in 1963 and Total Amount of Tax Liability

Amount of Tax Liability	Estimated 1963 Taxable Income Per Return[a]	Number of Returns	Total Amount of Tax Liability
$ 1- 1.99	$ 50	8,899	$ 4,649.82
1- 1.99	150	17,090	24,282.33
2- 2.99	250	14,601	36,103.68
3- 3.99	350	14,241	49,536.92
4- 4.99	450	13,846	62,058.01
5- 5.99	550	13,132	71,975,94
6- 6.99	650	13,461	87,047.12
7- 7.99	750	12,674	94,713.03
8- 8.99	850	12,880	109,132.52
9- 9.99	950	12,201	115,510.54
10- 10.99	1,050	11,709	122,432.98
11- 11.99	1,150	12,310	141,107.12
12- 12.99	1,250	10,628	132,583.32
13- 13.99	1,350	11,739	158,382.29
14- 14.99	1,450	10,624	154,132.29
15- 15.99	1,525	8,939	138,505.49
16- 16.99	1,575	9,031	149,078.57
17- 17.99	1,625	8,425	147,423.90
18- 18.99	1,675	8,465	156,307.12
19- 19.99	1,750	8,282	161,231.09
20- 24.99	1,950	36,919	827,725.10
25- 29.99	2,200	31,432	862,123.67
30- 34.99	2,450	15,592	505,788.66
35- 39.99	2,700	13,909	520,280.56
40- 44.99	2,950	11,749	497,992.06
45- 49.99	3,133	9,892	468,689.26
50- 54.99	3,330	8,560	448,871.28
55- 59.99	3,466	7,510	431,348.38
60- 64.99	3,633	6,782	423,323.61
65- 69.99	3,800	5,750	387,695.46

Table 46 (continued)

Amount of Tax Liability	Estimated 1963 Taxable Income Per Return[a]	Number of Returns	Total Amount of Tax Liability
$ 70- 74.99	$ 3,967	5,002	$ 362,143.28
75- 79.99	4,133	4,398	340,438.68
80- 84.99	4,300	4,015	330,987.80
85- 89.99	4,467	3, 591	313,945.07
95- 99.99	4,725	2,001	194,890.69
100-149.99	5,375	12,876	1,565,621.77
150-199.99	6,500	5,767	988,203.00
200-249.99	7,500	3,059	683,352.48
250-299.99	8,350	2,052	562,010.13
300-349.99	9,200	1,315	425,143.27
350-399.99	10,050	1,055	395,327.46
400-449.99	10,900	877	371,763.90
450-499.99	11,750	664	314,763.90
500-549.99	12,600	539	282,496.56
550-599.99	13,450	468	268,087.18
600-649.99	14,300	416	259,781.21
650-699.99	15,150	344	231,910.81
700-749.99	16,000	337	244,197.83
750-799.99	16,850	278	215,186.36
800-849.99	17,700	244	201,190.65
850-899.99	18,550	245	214,352.62
900-949.99	19,400	179	165,372.25
950-999.99	20,250	192	186,794.70
1,000-1,499	24,587	971	1,175,311.02
1,500-1,999	32,922	384	655,394.09
2,000-2,499	41,257	174	386,170.29
2,500-2,999	49,692	94	257,822.75
3,000-3,499	57,927	50	161.149.01
3,500-3,999	66,262	36	133,165.31
4,000-4,499	74,597	16	68,576.69
4,500-4,999	82,932	16	76,180.67
5,000-5,499	91,267	17	89,043.60
5,500-5,999	99,602	12	68,844.20

Table 46 (continued)

Amount of Tax Liability	Estimated 1963 Taxable Income Per Return[a]	Number of Returns	Total Amount of Tax Liability
$ 6,000-6,499	$ 107,937	10	$ 62,601.41
6,500-6,999	116,272	4	26,557.22
7,000-7-499	124,607	6	42,331.18
7,500-7,999	132,942	5	38,290.50
8,000-8,499	141,277	4	33,176.80
8,500- 8,999	149,612	5	44,422.12
9,000- 9,499	157,947	4	36,646.37
9,500- 9,999	166,282	5	48,473.09
10,000-10,999	175,719	5	51,580.14
11,000-11,999	200,922	1	11,828.44
12,000-12,999	213,374	3	37,726.10
13,000-13,999	226,577	3	40,102.57
14,000-14,999	243,864	2	28,809.96
15,000-15,999	-------	0	---------
16,000-16,999	-------	0	---------
17,000-17,999	-------	0	---------
18,000-18,999	318,729	1	18,894.52
19,000-19,999	-------	0	---------
20,000-29,999	407,730	6	145,420.45
30,000-39,999	578,247	3	103,390.06
40,000-49,999	695,421	2	82,983.76
50,000-59,999	-------	0	---------
60,000-69,999	1,125,574	1	67,296.02
70,000-79,999	1,195,204	2	142,947.16
80,000-89,999	---------	0	----------
90,000-99,999	---------	0	----------
TOTAL LIABILITY			$20,943,065.15

Source: Unpublished data obtained by the author from the Income Tax Division, Oklahoma Tax Commission, August, 1967.

[a]Calculated by determining amount of taxable income needed to generate amount of tax liability equal to the middle value of each liability category.

cent of the total liability. The number of returns with liability between $100 and $999 was 30,907, or 7.1 per cent of the total number of returns. This group or category paid a total liability of $7,575,234, or 36.17 per cent of the total collections. The number of returns continued to decline as the size of the liability rose. A total of 1,813 returns (0.42 per cent of the total) had tax liabilities between $1,000 and $9,999, with a group liability of $3,404,156, or 16.25 per cent of the total tax liability. Only 15 returns (0.003 per cent of the total) had liabilities between $10,000 and $19,999, with a group liability of $188,942 or 0.9 per cent of the total liability. Fourteen returns had liability of $20,000 or more, but this group contributed 2.59 per cent ($542,037) of the total tax liability. No return had a liability of more than $80,000.

Increase in Income Tax Revenue Through Use of Pre-1947 Structure

Prior to 1947, the brackets for Oklahoma's state income tax (personal) structure were $1,000 wide, with rates ranging from one per cent to nine per cent. The brackets and rates prior to 1947 were:

1 per cent on the first $1,000 of taxable income;
2 per cent on the second $1,000;
3 per cent on the third $1,000;
4 per cent on the fourth $1,000;
5 per cent on the fifth $1,000;
6 per cent on the sixth $1,000;
7 per cent on the seventh $1,000;
8 per cent on the eighth $1,000;
9 per cent on the excess over $9,000 taxable income.

The personal exemptions were also lower than they are currently. A single person was allowed a personal exemption of $850, while the head of a family or a married person living with husband or wife

received an exemption of $1,700. This contrasts to the $1,000 and $2,000 respectively of the current structure. Also prior to 1947, each dependent was allowed an exemption of $300, as compared to $500 today. Thus the pre-1947 rates were higher, the brackets more narrow, and the exemptions were smaller.

An estimate of the total taxable income in Oklahoma for 1963 was made based upon the distribution of income tax returns for that year by category of tax liability in the manner described above. The total tax liability for personal income tax returns in Oklahoma for 1963 was $20,943,065. According to the calculations for this study, if the pre-1947 brackets and rates had been applied to the 1963 distribution of taxable income (estimated) for Oklahoma, total 1963 personal tax liability would have been $29,434,729, representing an increase of some $9 million (see Table 47). This estimate was based on the assumption of changing only rates and brackets, with personal exemptions remaining unchanged.

As a second step, the increase in total personal income tax revenue was estimated under the assumption that in addition to the adoption of the pre-1947 rates and brackets, the pre-1947 personal exemptions were also adopted. In other words, the rates, brackets, and personal exemptions of pre-1947 period were assumed to be those used in 1963. The effect of changing the size of the personal exemptions is upon the size of the taxable income. Since the number of personal exemptions varies by family size, certain assumptions relating to the size of family (whether the returns represented married people with several children, married couples with no children, or single persons) had to

Table 47

Expected 1963 Oklahoma Income Tax Liability with Application of Pre-1947 Rates and Brackets

1963 Actual Liability	Estimated Taxable Income Per Return	Expected Liability Per Return	Total Returns	Actual Total Liability	Expected Total Liability
$ 0- .99	$ 50	$------	8,899	$ 4,650	$ 4,650
1.00-1.99	150	------	17,090	24,282	24,282
2.00-2.99	250	no change	14,610	36,104	36,104
3.00-3.99	350	no change	14,241	49,537	49,537
4.00-4.99	450	no change	13,846	62,058	62,058
5.00-5.99	550	no change	13,132	71,976	71,076
6.00-6.99	650	no change	13,461	87,047	87,047
7.00-7.99	750	no change	12,674	94,713	94,713
8.00-8.99	850	no change	12,880	109,133	109,133
9.00-9.99	950	no change	12,201	115,510	115,510
10- 10.99	1,050	11.00	11,709	122,433	128,809
11- 11.99	1,150	13.00	12,310	141,107	160,030
12- 12.99	1,250	15.00	10,628	132,583	159,420
13- 13.99	1,350	17.00	11,739	158,383	199,563
14- 14.99	1,450	19.00	10,624	154,132	201,856
15- 15.99	1,525	20.50	8,939	138,505	183,250
16- 16.99	1,575	21.50	9,031	149,079	191,166
17- 17.99	1,625	22.50	8,425	147,424	189,562
18- 18.99	1,675	23.50	8,465	156,307	198,928
19- 19.99	1,750	25.00	8,282	161,231	202,909
20- 24.99	1,950	28.90	36,919	827,725	1,066,959
25- 29.99	2,200	36.00	31,432	862,124	1,131,552
30- 34.99	2,450	43.50	15,592	505,787	686,048
35- 39.99	2,700	51.00	13,909	520,281	709,359
40- 44.99	2,950	58.50	11,749	497,992	687,316
45- 49.99	3,133	65.32	9,892	468,689	646,145
50- 54.99	3,330	72.00	8,560	448,871	616,320
55- 59.99	3,456	78.74	7,510	431,348	592,088
60- 64.99	3,633	85.32	6,782	423,324	578,640

Table 47 (continued)

1963 Actual Liability	Estimated Taxable Income Per Return	Expected Liability Per Return	Total Returns	Actual Total Liability	Expected Total Liability
$ 65- 69.99	$ 3,800	$ 92.00	5,750	$ 387,695	$ 529,000
70- 74.99	3,967	98.68	5,002	362,143	493,597
75- 79.99	4,133	106.65	4,398	340,439	469,047
80- 84.99	4,300	115.00	4,015	330,988	461,725
85- 89.99	4,467	123.35	3,591	313,945	442,950
90- 94.99	4,600	130.00	2,167	200,257	281,710
95- 99.99	4,725	136.25	2,001	194,891	272,636
100-149.99	5,375	172.50	12,876	2,221,110	1,565,622
150-199.99	6,500	245.00	5,767	1,412,915	988,203
200-249.99	7,500	320.00	3,059	978,880	683,352
250-299.99	8,350	391.50	2,052	803,358	562,010
300-349.99	9,200	478.00	1,315	628,570	425,143
350-399.99	10,050	544.50	1,055	574,448	395,327
400-449.99	10,900	621.00	877	544,617	371,764
450-499.99	11,750	697.50	664	463,140	314,442
500-549.99	12,600	774.00	539	417,186	282,497
550-599.99	13,450	850.50	468	398,034	268,087
600-649.99	14,300	927.00	416	385,632	259,781
650-699.99	15,150	1,023.50	344	352,084	231,911
700-749.99	16,000	1,050.00	337	363,960	244,198
750-799.99	16,850	1,156.50	278	321,507	215,186
800-849.99	17,700	1,233.00	244	300,852	201,191
850-899.99	18,550	1,309.50	245	320,828	214,353
900-949.99	19,400	1,386.00	179	248,094	165,372
950-999.99	20,250	1,468.50	192	281,952	186,795
1,000-1,499	24,587	1,852.83	971	1,799,098	1,175,311
1,500-1,999	32,922	2,602.98	384	999,552	655,394
2,000-2,499	41,257	3,353.13	174	583,445	386,170
2,500-2,999	49,592	4,103.28	94	385,708	257,823
3,000-3,499	57,927	5,852.43	50	242,622	161,149
3,500-3,999	66,262	5,603.58	36	201,729	133,165
4,000-4,499	74,597	6,353.73	16	101,660	68,577
4,500-4,999	82,932	7,103.78	16	113,660	76,181

Table 47 (continued)

1963 Actual Liability	Estimated Taxable Income Per Return	Expected Liability Per Return	Total Returns	Actual Total Liability	Expected Total Liability
$ 5,000-5,499	$ 91,267	$ 7,854.03	17	$ 133,519	$ 89,044
5,500-5,999	99,602	8,604.18	12	103,250	68,844
6,000-6,499	107,937	19,353.43	10	93,534	62,601
6,500-6,999	116,272	10,104.48	4	40,418	26,557
7,000-7,499	124,607	10,854.63	6	65,128	42,331
7,500-7,999	132,942	11,604.78	5	58,024	38,290
8,000-8,499	141,277	12,354.93	4	49,420	33,177
8,500-8,999	149,612	13,305.08	5	66,525	44,422
9,000-9,499	157,947	13,853.23	4	55,413	36,647
9,500-9,995	166,282	14,605.38	5	73,027	48,473
10,000-10,999	175,719	15,464.78	5	77,324	51,580
11,000-11,999	200,922	17,722.98	1	17,723	11,828
12,000-12,999	213,374	18,843.66	3	56,531	37,726
13,000-13,999	226,577	20,031.93	3	60,096	40,103
14,000-14,999	243,864	21,287.76	2	42,576	28,810
15,000-15,999	-------	---------	--	------	------
16,000-16,999	-------	---------	--	------	------
17,000-17,999	-------	---------	--	------	------
18,000-18,999	318,729	28,325.61	1	28,326	18,895
19,000-19,999	-------	---------	--	------	------
20,000-29,999	407,730	36,344.70	6	218,068	145,420
30,000-39,999	578,247	51,682.23	3	155,047	103,390
40,000-49,999	695,421	62,227.84	2	124,456	82,984
50,000-59,999	-------	---------	--	-------	------
60,000-69,999	1,125,574	108,081.66	1	108,082	67,296
70,000-79,999	1,195,204	113,988.00	2	227,976	142,947
80,000-89,999	---------	----------	--	-------	-------
90,000-99,999	---------	----------	--	-------	-------

Source: Calculated from unpublished figures of number of tax returns by amount of liability from the Oklahoma Tax Commission, Income Tax Division, August 1967.

be made. No information was available for 1963 which would indicate the average size of the taxpayer's family. Census data for 1960 are unsuitable. However, the Income Tax Division of the Oklahoma Tax Commission, based upon an unofficial staff survey made several years ago, assumes that, on the average, 15-20 per cent of the returns are made by single persons, and 80-85 per cent of the returns are made by married couples with one dependent per couple. This writer adopted the assumption that 20 per cent of the returns in each category were made by single individuals and 80 per cent were made by married couples with one child each. No attempt was made to calculate the effect of income splitting. The effect of adopting the 1947 personal exemptions, based upon the above stated assumptions concerning family size, was to increase taxable income by $400 for married couples with one dependent, and $150 for single taxpayers.

According to the estimates based upon the above assumptions, the total expected liability for single individuals filing Oklahoma personal income tax returns in 1963 would have been $6,020,065. The expected liability for married couples with one dependent per couple would have been $28,597,002. Total expected tax liability for both groups, hence, the whole, would have been $34,617,067 (see Tables 48-a and 48-b). Thus, it was estimated that if Oklahoma had been using the tax rates, brackets, and personal exemptions of the pre-1947 personal income tax law, the state would have received approximately $14 million additional revenue from the tax in 1963.

Table 48-a

Estimated Oklahoma State Income Tax Liability for 1963 with Application of Rates, Brackets, and Personal Exemptions of the Pre-1947 Oklahoma Income Tax Structure: Married Couples with One Dependent (80 per cent of total)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income by Applying 1947 Tax Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 50	$ 550	$ 5.50	7,119	$ 39,154
150	650	6.50	13,672	88,868
250	750	7.50	11,681	87,608
350	850	8.50	11,393	96,840
450	950	9.50	11,077	105,282
550	1,050	11.00	10,506	115,566
650	1,150	13.00	10,769	139,997
750	1,250	15.00	10,139	152,085
850	1,350	17.00	10,304	175,168
950	1,450	19.00	9,761	185,459
1,050	1,550	21.00	9,367	196,707
1,150	1,650	23.00	9,848	226,504
1,250	1,750	25.00	8,502	212,550
1,350	1,850	27.00	9,391	253,557
1,450	1,950	29.00	8,599	249,371
1,525	2,025	30.75	7,151	219,893
1,575	2,075	32.25	7,225	233,006
1,625	2,125	33.75	6,740	227,475
1,675	2,175	35.25	6,772	238,713
1,750	2,250	37.50	6,626	248,475
1,950	2,450	43.50	29,535	1,284,772
2,200	2,700	51.00	25,146	1,282,446
2,450	2,950	58.50	12,474	729,729
2,700	3,200	68.00	11,127	756,636
2,950	3,450	78.00	9,399	733,122

Table 48-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income by Applying 1947 Tax Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 3,133	$ 3,633	$ 85.32	7,914	$ 675,222
3,330	3,880	93.20	6,848	638,234
3,466	3,966	98.64	6,008	592,629
3,633	4,133	106.65	5,426	578,683
3,800	4,300	115.00	4,600	529,000
3,967	4,467	123.35	4,002	493,647
4,133	4,633	131.65	3,518	463,145
4,300	4,800	140.00	3,212	449,680
4,467	4,633	148,35	2,873	426,210
4,600	4,800	156.00	1,734	270,504
4,725	5,225	163.50	1,601	261,764
5,375	5,875	202.50	10,301	2,085,952
6,500	7,000	280.00	4,614	1,291,920
7,500	8,000	360.00	2,447	880,920
8,350	8,850	436.50	1,642	716,733
9,200	9,700	513.00	1,052	539,676
10,050	10,550	589.50	844	497,538
10,900	11,400	666.00	702	467,532
11,750	12,250	742.50	531	394,268
12,600	13,100	819.00	431	352,989
13,450	13,950	895.50	374	334,917
14,300	14,800	972.00	333	323,676
15,150	15,650	1,048.50	275	288,338
16,000	16,500	1,125.00	270	303,750
16,850	17,350	1,201.50	222	266,733
17,700	18,200	1,278.00	195	249,210
18,550	19,050	1,354.50	196	265,482
19,400	19,900	1,431.00	143	204,633
20,250	20,760	1,507.50	154	232,155
24,587	25,087	1,897.83	777	1,474,614

Table 48-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income by Applying 1947 Tax Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 32,922	$ 33,422	$ 2,647.98	307	$ 812,930
41,257	41,757	3,398.13	139	472,340
49,592	50,092	4,148.28	75	311,121
57,927	58,427	4,898.43	40	195,937
66,262	66,762	5,648.58	29	163,809
74,597	75,097	6,398.73	13	83,183
82,932	83,432	7,148.88	13	92,935
91,267	91,767	7,899.03	14	110,586
99,602	101,102	8,739.18	10	87,392
107,937	108,437	9,399.33	8	75,195
116,272	116,772	10,059.48	4	43,599
124,607	125,107	10,899.63	5	54,498
132,942	133,442	11,649.78	4	46,599
141,277	141,777	12,399.93	4	49,560
149,612	150,112	13,150.08	4	52,601
157,947	158,447	13,900.23	4	55,601
166,282	166,782	14,650.38	4	58,602
175,719	176,219	15,499.71	4	61,999
200,922	201,422	17,767.98	1	17,768
213,274	213,874	18,888.66	3	56,666
226,577	227,077	20,076.93	3	60,231
243,864	244,364	21,632.76	2	43,266
318,729	319,229	28,370.61	1	28,371
407,730	408,230	36,380.70	5	181,904
578,247	578,747	51,727.23	3	155,182
695,421	695,921	62,272.89	2	124,182
1,125,574	1,126,074	100,986.66	1	100,987
1,195,204	1,195,704	107,253.36	2	214,507
Total Expected Tax Liability				$28,597,002

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from the Oklahoma Tax Commission, Income Tax Division.

Table 48-b

Estimated Oklahoma State Income Tax Liability for 1963 with Application of Rates, Brackets, and Personal Exemptions of the Pre-1947 Oklahoma Income Tax Structure: Single Individuals (Twenty Per Cent of Total Returns)

Estimated 1963 Taxable Income	Estimated 1963 Taxable Income by Applying 1947 Tax Structure	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 50	$ 200	$ 2.00	1,780	$ 3,560
150	300	3.00	3,418	10,254
250	400	4.00	2,920	11,680
350	500	5.00	2,848	14,240
450	600	6.00	2,769	16,614
550	700	7.00	2,626	18,382
650	800	8.00	2,692	21,536
750	900	9.00	2,535	22,815
850	1,000	10.00	2,576	25,760
950	1,100	12.00	2,440	29,280
1,050	1,200	14.00	2,342	32,788
1,150	1,300	16.00	2,462	39,392
1,250	1,400	18.00	2,126	38,268
1,350	1,500	20.00	2,348	46,960
1,450	1,600	22.00	2,125	46,750
1,525	1,675	23.50	1,788	42,018
1,575	1,725	24.50	1,806	44,227
1,625	1,775	25.50	1,685	42,968
1,675	1,825	26.50	1,693	44,864
1,750	1,900	28.00	1,656	46,368
1,950	2,100	33.00	7,384	243,672
2,200	2,350	40.50	6,286	254,583
2,450	2,600	48.00	3,118	149,664
2,700	2,850	55.50	2,782	154,401
2,950	3,100	64.00	2,350	150,400
3,133	3,283	71.32	1,978	141,071
3,330	3,480	75.20	1,712	128,742
3,466	3,616	84.64	1,502	127,129
3,633	3,783	91.32	1,356	123,830
3,800	3,950	98.00	1,150	112,700

Table 48-b (continued)

Estimated 1963 Taxable Income	Estimated 1963 Taxable Income by Applying 1947 Tax Structure	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 3,967	$ 4,117	$ 137.50	1,000	$ 105,850
4,133	4,283	114.15	880	100,452
4,300	4,450	122.50	803	98,368
4,467	4,617	130.85	718	93,950
4,600	4,750	137.50	433	59,538
4,725	4,975	148.75	400	59,500
5,375	5,525	181.50	2,575	467,362
6,500	6,650	255.50	1,153	294,592
7,500	7,650	332.00	612	203,184
8,350	8,500	405.00	410	166,050
9,200	9,350	481.50	263	126,634
10,050	10,200	558.00	211	117,738
10,900	11,050	634.50	175	111,038
11,750	11,900	711.00	133	94,563
12,600	12,750	787.50	108	85,050
13,450	13,600	964.00	94	81,216
14,300	14,450	938.50	83	77,896
15,150	15,300	1,017.00	69	70,173
16,000	16,150	1,093.50	67	73,264
16,850	17,000	1,170.00	56	65,520
17,700	17,850	1,246.50	49	61,078
18,550	18,700	1,323.00	49	64,827
19,400	19,550	1,399.50	36	50,382
20,250	20,400	1,476.00	38	56,088
24,587	24,737	1,866.00	194	362,004
32,922	33,072	2,616.48	77	201,469
41,257	41,407	3,392.63	35	118,742
49,592	49,760	4,118.40	19	78,250
57,927	58,070	4,866.30	10	48,663
66,262	66,412	5,617.08	7	39,320
74,597	74,747	6,367.23	3	19,102
82,932	83,082	7,117.38	3	21,352
91,267	91,417	7,867.53	3	23,603

Table 48-b (continued)

Estimated 1963 Taxable Income	Estimated 1963 Taxable Income by Applying 1947 Tax Structure	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability by Applying 1947 Tax Structure
$ 99,602	$ 99,752	$ 8,617.68	2	$ 17,235
107,937	108,087	8,367.83	2	18,736
116,272	116,422	10,117.80	0	------
124,607	124,757	11,167.13	1	11,167
132,942	133,092	11,618.28	1	11,618
141,277	141,427	11,998.43	0	------
149,612	149,762	13,118.58	1	13,119
157,947	158,097	14,868.73	0	------
166,282	166,432	14,618.88	1	14,619
175,719	175,869	15,468.21	1	15,468
200,922	201,072	17,796.48	0	------
213,374	213,524	18,867.16	0	------
226,577	226,727	20,045.43	0	------
243,864	243,914	21,542.26	0	------
318,729	318,879	28,339.11	0	------
407,730	407,880	36,349.20	1	36,349
578,247	578,397	51,695.73	0	------
695,421	695,571	62,241.39	0	------
1,125,574	1,125,724	100,945.16	0	------
1,195,204	1,195,354	107,201.86	0	------
Total Expected Liability				$ 6,020,065
Plus Expected Liability for Married Couples with one dependent				28,297,002
TOTAL EXPECTED LIABILITY				$34,617,067

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from the Oklahoma Tax Commission, Income Tax Division.

Effect of Eliminations of the Deductibility of Federal Income Taxes

Oklahoma is one of eighteen states allowing federal income taxes to be deducted from adjusted gross income for state personal income tax purposes. The total liability for Oklahoma's personal income tax in 1963 was estimated based upon the assumption that the only change was the elimination of the right to deduct federal income taxes paid in computing the state tax liability.

The federal tax paid was calculated for each level of taxable income (estimated from the Oklahoma tax returns) for both single individuals and the married couples with one dependent. The only adjustment made in moving from Oklahoma taxable income to Federal taxable income was for the differences in the size of personal exemptions. The Federal government allows $600 for each dependent, whereas Oklahoma allows $1,000 for a single taxpayer, or $2,000 for a couple or head of a household, and $500 for each additional dependent. The Federal taxable income was estimated by adding the difference in personal exemptions to the Oklahoma taxable income estimate. This amounted to the addition of $400 in the case of the single taxpayers, and $700 in the case of the couples with one dependent. The 1963 federal income tax rates were then applied to the estimated Federal taxable incomes, and the resulting figures were assumed to be the Federal income tax liabilities. This figure was then added to the Oklahoma taxable income estimate for each respective category, and the Oklahoma personal income tax liability was estimated for the new level of Oklahoma taxable income. Since the Federal income tax is rather progressive, the effect of

eliminating the deductibility of the Federal tax increased as the income size increased.

According to the estimate of this writer, single taxpayers in Oklahoma in 1963 (assumed to be 20 per cent of all taxpayers) would have paid a total of $6,029,564, while the married couples with one dependent (assumed to be 80 per cent of the total) would have had total liabilities of $24,455,450. Thus total estimated personal income tax liability in 1963 would have been $30,485,014, which would represent an increase of $9,541,949, by eliminating the deductibility of the Federal income tax (see Tables 49-a and 49-b).

A fairly strong argument can be made to justify the elimination of the deductibility of the Federal income tax. Arkansas, one of the regional states, does not allow the Federal tax to be deducted for state purposes. As the above estimates demonstrate, this deductibility feature has the effect of significantly reducing the state tax liability (by approximately one-third for the State of Oklahoma). This practice is defended on the ground that the taxpayer's capacity to pay has been reduced by the amount paid in income taxes to the Federal government. It is claimed that failure to provide such a deduction is "double taxation" or a "tax on a tax." In a real sense, however, taxes paid to the Federal government are prices paid by the individual for the purchase, although unvoluntary, of those public services provided by that government. A state income tax is used to support entirely different government activities, and is levied at a much lower level.[12]

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[12]George W. Thatcher, Tax Revision Alternatives for the Tax System of Ohio (Columbus, Ohio: Ohio Tax Study Committee, 1962), p. 172.

Table 49-a

Estimated Oklahoma State Personal Income Tax Liability for 1963 with the Elimination of Deductibility of Federal Income Tax: Married Couples with One Dependent (Eighty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 50	$ 200	$ 2.00	7,119	$ 14,238
150	320	3.20	13,672	43,750
250	440	4.40	11,681	51,396
350	560	5.60	11,393	63,801
450	680	6.80	11,077	75,324
550	800	8.00	10,506	84,048
650	920	9.20	10,769	99,075
750	1,040	10.40	10,139	105,446
850	1,160	11.60	10,304	119,526
950	1,280	12.80	9,761	124,941
1,050	1,400	14.00	9,367	131,138
1,150	1,520	15.40	9,848	151,659
1,250	1,640	17.80	8,502	151,336
1,350	1,760	20.20	9,391	189,698
1,450	1,880	22.60	8,599	194,337
1,525	1,970	24.40	7,151	174,484
1,575	2,028	25.56	7,225	184,671
1,625	2,090	26.80	6,740	180,632
1,675	2.150	28.00	6,722	188,216
1,750	2,240	29.80	6,626	197,455
1,950	2,480	34.60	29,535	1,021,911
2,200	2,780	40.60	25,146	1,020,928
2,450	3,080	47.40	12,474	591,268
2,700	3,380	56.40	11,127	627,563
2,950	3,680	65.40	9,399	614,695
3,133	3,900	72.00	7,914	569,808
3,300	4,100	78.00	6,848	534,144
3,466	4,303	84.09	6,008	505,213

Table 49-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 3,633	$ 4,506	$ 90.24	5,426	$ 489,642
3,800	4,700	98.00	4,600	450,500
3,967	4,914	106.56	4,002	426,453
4,133	5,116	114.24	3,518	401,896
4,300	5,320	122.80	3,212	394,434
4,467	5,524	130.96	2,873	376,248
4,600	5,686	137.44	1,734	238,321
4,725	5,839	143.56	1,601	229,840
5,375	6,632	181.60	10,301	1,870,662
6,500	8,004	255.24	4,614	1,177,677
7,500	9,232	328.92	2,447	804,867
8,350	10.303	393.18	1,642	645,602
9,200	11,374	457.44	1,052	481,227
10,050	12,445	521.70	844	440,315
10,900	13,516	585.96	702	411,344
11,750	14,595	750.70	531	398.622
12,600	15,710	685.20	431	295,321
13,450	16,815	783.90	374	293,179
14,300	18,000	855.00	333	284,715
15,150	19,025	916.50	275	249,288
16,000	20,318	994.08	270	268,402
16,850	21,457	1,062.42	222	235,857
17,700	22,596	1,130.76	195	220,498
18,550	23,734	1,199.04	196	235,012
19,400	24,718	1,258.28	143	179,905
20,250	26,271	1,351.26	154	208,094
24,587	31,780	1,681.80	777	1,306,759
32,922	43,973	2,413.38	307	740,908
41,257	56,713	3,177.78	139	441,711
49,592	70,024	3,976.44	75	298,233
57,927	83,475	4,783.50	40	191,340
66,262	94,586	5,450.16	29	158,055

Table 49-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 74,597	$ 108,341	$ 6,275.46	13	$ 81,581
82,932	124,202	7,227.12	13	93,953
91,267	238,539	8,087.34	14	113,223
99,267	148,348	8,675.88	10	86,759
107,937	162,935	9,551.10	8	76,409
116,272	177,520	10,426.20	4	41,705
124,607	192,265	11,310.90	5	56,554
132,942	207,102	12,201.12	4	48,804
141,277	221,997	13,094.82	4	52,379
149,612	237,084	14,000.04	4	56,000
157,947	252,191	14,906.46	4	59,626
166,282	267,466	15,822.96	4	63,292
175,719	284,831	16,864.86	4	67,459
200,922	331,884	19,688.04	1	19,688
213,374	355,420	21,100.20	3	63,301
226,577	380,375	22,597.50	3	67,792
243,864	413,046	24,557.76	2	49,116
318,729	554,737	33,059.22	1	33,059
407,730	723,922	43,210.32	5	21,605
578,247	958,607	57,291.42	3	171,874
695,421	1,273,409	76,179.54	2	152,359
1,125,574	2,095,004	125,474.64	1	125,475
1,195,204	2,227,996	133,454.76	2	266,911
Total Expected Liability				$24,455,450

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from Oklahoma Tax Commission, Income Tax Division, and Federal Income Tax rates from The Federal Tax System: Facts and Problems.

Table 49-b

Estimated Oklahoma State Personal Income Tax Liability for 1963 with the Elimination of Deductibility of Federal Income Tax: Single Individuals (Twenty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 50	$ 140	$ 1.40	1,780	$ 2,492
150	260	2.60	3,418	8,887
250	380	3.80	2,920	11,096
350	490	4.90	2,848	13,955
450	600	6.00	2,769	16,614
550	720	7.20	2,626	18,907
650	840	8.40	2,692	22,613
750	960	9.60	2,535	24,336
850	1,100	11.00	2,576	28,336
950	1,170	11.70	2,440	28,548
1,050	1,340	13.40	2,342	31,383
1,150	1,460	14.60	2,462	35,945
1,250	1,580	16.60	2,126	35,292
1,350	1,700	19.00	2,348	44,612
1,450	1,820	21.40	2,125	45,475
1,525	1,910	23.20	1,788	41,482
1,575	1,970	24.40	1,806	44,066
1,625	2,031	25.62	1,685	43,170
1,675	2,091	26.82	1,693	45,406
1,750	2,183	28.62	1,656	47,395
1,950	2,427	33.54	7,384	247,659
2,200	2,732	39.64	6,286	249,177
2,450	3,037	46.11	3,118	143,771
2,700	3,342	55.26	2,782	153,733
2,950	3,647	65.41	2,350	153,714

Table 49-b (continued)

Estimated 1963 Taxable Income (PerReturn)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 3,133	$ 3,870	$ 71.10	1,978	$ 140,636
3,300	4,074	77.22	1,712	132,201
3,466	4,277	83.31	1,502	125,132
3,633	4,482	89.46	1,356	121,308
3,800	4,692	97.68	1,150	112,332
3,967	4,902	106.08	1,000	106,080
4,133	5,112	114.48	880	100,742
4,300	5,322	122.88	803	98,673
4,467	5,532	131.28	718	94,259
4,600	5,700	138.00	435	60,030
4,725	5,857	144.28	400	57,712
5,375	6,676	183.80	2,575	473,285
6,500	8,130	262.80	1,153	303,008
7,500	9,430	340.80	612	208,570
8,350	10,645	416.70	410	170,847
9,200	11,784	482.04	263	126,777
10,050	12,861	546.66	211	115,345
10,900	14,034	611.04	175	106,932
11,750	15,134	683.04	133	90,844
12,600	16,350	756.00	108	81,648
13,450	17,566	828.96	94	77,922
14,300	18,809	903.54	83	74,994
15,150	20,058	978.48	69	67,515
16,000	21,320	1,054.20	67	70,631
16,850	22,595	1,130.70	56	63,319
17,700	23,873	1,207.38	49	59,162
18,550	25,174	1,285.44	49	62,987
19,400	26,474	1,363.44	36	49,084
20,250	27,794	1,442.64	38	54,820
24,587	34,709	1,869.54	194	362,691

Table 49-b (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income Including Federal Income Tax (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Change
$ 32,922	$ 46,981	$ 2,593.86	77	$ 199,727
41,257	59,580	3,349.80	35	117,243
49,592	73,846	4,205.76	19	79,909
57,927	88,882	5,107.92	10	51,079
66,262	103,218	5,968.08	7	41,777
74,597	118,204	6,867.24	3	20,602
82,932	133,391	7,778.46	3	23,335
91,267	148,777	8,701.62	3	26,105
99,602	164,363	9,636.78	2	19,274
107,937	180,117	10,682.02	2	21,364
124,607	211,703	12,477.18	1	12,477
132,942	226,486	13,364.16	1	13,364
149,612	258,883	15,307.98	1	15,308
166,282	290,556	17,208.36	1	17,208
175,719	308,486	18,384.16	1	18,384
407,730	751,388	44,858.28	1	44,858
Total Expected Liability of Individuals				$ 6,029,564
Plus Total Expected Liability of Married Couples with One Dependent				$24,455,450
TOTAL EXPECTED LIABILITY				$30,485,014

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from Oklahoma Tax Commission, Income Tax Division; and, from Federal income tax rates in 1963 published in The Federal Tax System: Facts and Problems, a committee report for the Joint Economic Committee.

The effect of this deduction is to reduce the total state tax base and also to reduce the progressivity of the state's personal income tax. Deductibility of the Federal tax reduces the tax liability of the higher income bracket taxpayers more than the lower brackets, thus changing the distribution of the tax burden among individuals in the state. Also, the deduction of the Federal tax makes the revenue from the state tax more responsive to changes in the Federal law. Although the allowance of deductibility of the Federal tax paid on income for state tax purposes reduces the net burden of the state tax, the cost to the state in tax revenue is more than the taxpayers save.[13]

Adoption of Colorado's Rates, Brackets, and Personal Exemptions

In 1965, state personal income tax collections in Colorado were more than twice the size of Oklahoma's state personal income tax collections. Since Colorado had by far the most productive state personal income tax of the regional states, the effect on 1963 personal income tax revenue in Oklahoma with the application of Colorado rates, brackets, and personal exemptions was estimated. No attempt was made to estimate the effect of redefining the 1963 Oklahoma adjusted income to coincide with the definition of Colorado's adjusted income, as the data needed for such an estimation were not available; nor was any provision made to include the use of income tax cresits for sales taxes paid on food such as those used by Colorado.

If Oklahoma had been using Colorado's personal income tax rates, brackets, and personal exemptions in 1963, the liability of single

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[13] Ibid.

taxpayers would have been $8,769,559; and the total liability of married couples with one dependent would have been $35,942,266 (see Tables 50-a and 50-b). The total expected 1963 personal income liability in Oklahoma would have been $44,711,825, or an increase of $23,768,760 over the amount actually collected in 1963.

Most of the increase in personal income tax revenue would have been accounted for by higher rates and narrower brackets, as the taxable incomes for both couples with one dependent and single taxpayers would be increased by only $250 with the adoption of the Colorado personal exemptions.

Colorado Rates, Brackets, and Personal Exemptions Plus Elimination of Deductibility of Federal Income Tax

The net effect of applying Colorado personal income tax rates, brackets, and personal exemptions to the 1963 Oklahoma estimated income distribution with the added assumption that the deductibility of the Federal income tax was eliminated was also estimated. The expected increase in total tax liability was rather large. The procedure was the same as that used when the effect of the deductibility of the Federal income tax was estimated for Oklahoma under the present Oklahoma tax structure.

If the Colorado rates, brackets, and personal exemptions were applied to the 1963 distribution of taxable income (estimated) in Oklahoma, and the Federal income tax could not be deducted, it was estimated that the liability for single taxpayers would have been $11,623,109; and would have been $47,648,024 for married couples with

Table 50-a

Estimated Oklahoma State Personal Income Tax Liability for 1963 by Applying Colorado Rates, Brackets, and Personal Exemptions: Married Couples with One Dependent (Eighty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 50	$ 300	$ 9.00	7,119	$ 64,071
150	400	12.00	13,672	164,064
250	500	15.00	11,681	175,215
350	600	18.00	11,393	205,074
450	700	21.00	11,077	232,617
550	800	24.00	10,506	252,144
650	900	27.00	10,769	290,763
760	1,000	30.00	10,139	304,170
850	1,100	33.50	10,304	345,184
950	1,200	37.00	9,761	361,157
1,050	1,300	40.50	9,367	379,364
1,150	1,400	43.20	9,848	425,434
1,250	1,500	47.50	8,502	403,845
1,350	1,600	51.00	9,391	478,941
1,450	1,700	54.50	8,599	468,646
1,525	1,775	57.12	7,151	408,465
1,575	1,825	58.88	7,225	425,408
1,625	1,875	60.62	6,740	408,579
1,675	1,925	62.38	6,772	422,437
1,750	2,000	65.00	6,626	430,690
1,950	2,200	73.00	29,535	2,156,055
2,200	2,450	81.00	25,146	2,036,826
2,450	2,700	93.00	12,474	1,160,082
2,700	2,950	103.00	11,127	1,146,081
2,950	3,200	114.00	9,399	1,071,486
3,133	3,383	122.24	7,914	967,407
3,300	3,550	129.75	6,848	888,528
3,466	3,716	137.22	6,008	824,418
3,633	3,883	144.74	5,426	785,359
3,800	4,050	150.25	4,600	691,150

Table 50-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 3,967	$ 4,217	$ 160.85	4,002	$ 643,722
4,133	4,383	169.15	3,518	595,070
4,300	4,550	177.50	3,212	570,130
4,467	4,717	185.85	2,873	533,947
4,600	4,850	192.50	1,734	333,795
4,725	4,975	198.75	1,601	318,199
5,375	5,625	234.38	10,301	2,414,348
6,500	6,750	300.00	4,614	1,384,200
7,500	7,750	367.75	2,447	890,096
8,350	8,600	492.00	1,642	807,864
9,200	9,450	483.75	1,052	508,905
10,050	10,300	549.00	844	463,356
10,900	11,150	617.00	702	433,134
11,750	12,000	685.00	531	363,735
12,600	12,850	753.00	431	324,543
13,450	13,700	821.00	374	307,054
14,300	14,550	889.00	333	296,037
15,150	15,400	957.00	275	263,175
16,000	16,250	1,025.00	270	276,750
16,850	17,100	1,093.00	222	242,646
17,700	17,950	1,161.00	195	226,395
18,550	18,800	1,229.00	196	240,884
19,400	19,650	1,297.00	143	185,471
20,250	20,500	1,365.00	154	210,210
24,587	24,837	1,711.96	777	1,330,193
32,922	33,172	2,378.76	307	730,279
41,257	41,507	3,045.56	139	423,333
49,592	49,842	3,712.36	75	278,427
57,927	58,177	4,379.16	40	175,166
66,262	66,512	5,045.96	29	146,333
74,597	74,847	5,712.76	13	74,266
82,932	83,182	6,379.56	13	82,934
91,267	91,517	7,046.36	14	98,649

Table 50-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 99,602	$ 99,852	$ 7,713.16	10	$ 77,132
107,937	108,187	8,379.97	8	67,040
116,272	116,522	9,046.76	4	36,187
124,607	124,857	9,713.56	5	48,568
132,942	133,192	10,380.36	4	41,521
141,277	141,527	11,047.16	4	44,189
149,612	149,862	11,713.96	4	46,856
157,947	158,197	12,380.76	4	49,523
166,282	166,532	13,047.56	4	52,190
175,719	175,969	13,802.52	4	55,210
200,922	201,152	15,817.16	1	15,816
213,374	213,624	16,814.92	3	50,445
226,577	226,827	17,871.16	3	53,613
243,864	244,014	19,246.12	2	38,492
318,729	318,979	25,243.32	1	25,243
407,730	407,980	32,363.40	5	161,817
578,247	578,497	46,004.76	3	138,014
695,421	695,671	55,378.68	2	110,757
1,125,574	1,125,824	90,590.92	1	90,591
1,195,204	1,195,654	96,177.32	2	192,155
Total Expected Liability				$35,942,266

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from Oklahoma Tax Commission, Income Tax Division; and, Prentice-Hall: Colorado State and Local Taxes.

Table 50-b

Estimated Oklahoma State Personal Income Tax Liability for 1963 by Applying Colorado Rates, Brackets, and Personal Exemptions: Single Individuals (Twenty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 50	$ 300	$ 9.00	1,780	$ 16,020
150	400	12.00	3,418	41,016
250	500	15.00	2,920	43,811
350	600	18.00	2,848	51,264
450	700	21.00	2,769	58,149
550	800	24.00	2,626	63,024
650	900	27.00	2,692	72,684
750	1,000	30.00	2,535	76,050
850	1,100	33.50	2,576	86,296
950	1,200	37.00	2,440	90,280
1,050	1,300	40.50	2,342	94,851
1,150	1,400	44.00	2,462	108,328
1,250	1,500	47.50	2,126	100,985
1,350	1,600	51.00	2,348	119,748
1,450	1,700	54.50	2,125	115,812
1,525	1,775	57.12	1,788	102,131
1,575	1,825	58.88	1,806	106,337
1,625	1,875	60.62	1,685	102,145
1,675	1,925	62.38	1,693	105,609
1,700	2,000	65.00	1,656	107,640
1,950	2,200	73.00	7,384	529,032
2,200	2,450	83.00	6,286	521,738
2,450	2,700	93.00	3,118	289,974
2,700	2,950	103.00	2,782	286,546
2,950	3,200	114.00	2,350	267,900
3,133	3,383	122.24	1,978	241,791
3,300	3,550	129.75	1,712	222,132
3,466	3,716	137.22	1,502	206,104
3,633	3,883	144.74	1,356	196,267
3,800	4,050	152.50	1,150	175,375

Table 50-b (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 3,967	$ 4,217	$ 160.85	1,000	$ 160,850
4,133	4,383	169.15	880	148,852
4,300	4,550	177.50	803	142,532
4,467	4,717	185.85	718	133,440
4,600	4,850	192.50	433	83,352
4,725	4,975	198.75	400	79,500
5,375	5,625	234.38	2,575	603,528
6,500	6,750	300.00	1,153	345,900
7,500	7,750	363.85	612	222,676
8,350	8,600	492.00	410	201,720
9,200	9,450	483.75	263	127,226
10,050	10,300	549.00	211	115,839
10,900	11,150	617.00	175	107,975
11,750	12,000	685.00	133	91,105
12,600	12,850	753.00	108	81,324
13,450	13,700	821.00	94	77,174
14,300	14,550	889.00	83	73,787
15,150	15,400	957.00	69	66,033
16,000	16,250	1,025.00	67	68,675
16,850	17,100	1,093.00	56	61,208
17,700	17,950	1,161.00	49	56,889
18,550	18,800	1,229.00	49	60,221
19,400	19,650	1,297.00	36	46,692
20,250	20,500	1,365.00	38	51,870
24,587	24,837	1,711.96	194	332,120
32,922	33,172	2,378.76	77	183,165
41,257	41,507	3,045.56	35	106,595
49,592	49,842	3,712.36	19	70,535
57,927	58,177	4,379.16	10	43,792
66,262	66,512	5,045.96	7	35,332

Table 50-b (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income with Colorado Structure (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability with Colorado Structure
$ 74,597	$ 74,847	$ 5,712.76	3	$ 17,138
82,932	83,182	6,379.56	3	19,139
91,267	91,517	7,046.36	3	21,139
99,602	99,852	7,713.16	2	15,426
107,937	108,187	8,379.96	2	16,760
124,607	124,857	9,713.56	1	9,714
132,942	133,192	10,380.36	1	10,380
149,612	149,862	11,743.96	1	11,714
166,282	166,532	13,047.56	1	13,048
175,719	175,969	13,802.52	1	13,803
407,730	407,980	32,363.40	1	32,363
Total Expected Liability for Single Individuals:				$ 8,769,559
Plus Total Expected Liability for Married Couples with One Dependent				35,942,266
TOTAL EXPECTED LIABILITY				$44,711,825

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from Oklahoma Tax Commission, Income Tax Division; and Prentice-Hall: Colorado State and Local Taxes.

one dependent (see Tables 51-a and 51-b). The total expected personal income tax liability in Oklahoma for 1963 would have been $59,271,133, representing an increase of $38,327,067 over the actual 1963 collections in Oklahoma.

Adoption of a Proportional Rate Personal Tax

Four states--Indiana, Maryland, Massachusetts, and Nebraska--have flat rate or proportional rate personal income taxes.[14] For state and local governments, low rates are always preferable to high rates if the same amount of revenue is forthcoming in either case. A flat-rate tax with a low rate applied to a broad income base, such as the adjusted gross income for federal tax purposes less personal exemptions, will often produce as much revenue as a progressive rate structure applied to the typically smaller state adjusted-gross-income-minus-personal-exemptions. The Indiana flat rate personal income tax, adopted in 1963, is an example of the use of a low flat-rate tax with a broad income base.

All persons, partnerships, fiduciaries, and unincorporated businesses in Indiana are taxed at two per cent on their individual adjusted income as defined for federal tax purposes, less a taxpayer and dependency allowance.[15] The only modification causing the federal adjusted income to be changed is the addition of taxes imposed by the

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[14]Advisory Commission on Intergovernmental Relations, op. cit., Table 23, p. 103.

[15]James A. Papke, "Indiana Tax Policy: Revision, Reform, and Reconstruction," National Tax Journal, Vol. XVII, No. 2, June 1964, pp. 123-124.

Table 51-a

Estimated Oklahoma State Personal Income Tax Liability for 1963 with Application of Colorado Rates, Brackets, and Personal Exemptions; and Removal of Deductibility of Federal Income Tax: Married Couples with One Dependent (Eighty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$ 50	$ 450	$ 13.50	7,119	$ 96,106
150	570	17.10	13,672	233,791
250	690	20.70	11,681	241,797
350	810	24.30	11,393	276,850
450	930	27.90	11,077	309,048
550	1,050	31.75	10,506	333,566
650	1,170	35.95	10,769	387,146
750	1,290	40.15	10,139	407,081
850	1,410	44.35	10,304	456,982
950	1,530	48.55	9,761	473,897
1,050	1,650	52.75	9,367	494,109
1,150	1,770	56.95	9,848	560,844
1,250	1,890	61.15	8,502	519,897
1,350	2,010	65.40	9,391	614,171
1,450	2,130	70.20	8,599	603,650
1,525	2,220	73.88	7,151	528,316
1,575	2,278	76.12	7,225	549,967
1,625	2,340	78.60	6,740	529,764
1,675	2,400	81.00	6,772	547,532
1,750	2,490	84.60	6,626	560,560
1,950	2,730	94.20	29,535	2,782,197
2,200	2,930	102.20	25,146	2,569,921
2,450	3,330	119.85	12,474	1,495,009
2,700	3,630	133.35	11,127	1,483,785
2,950	3,930	146.85	9,339	1,380,243
3,133	4,150	157.50	7,914	1,246,455
3,300	4,350	167.50	6,848	1,147,040
3,466	4,553	177.65	6,008	1,067,321
3,633	4,756	187.80	5,426	1,019,003
3,800	4,950	197.60	4,600	908,500

Table 51-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$ 3,967	$ 5,164	$ 209.20	4,002	$ 837,218
4,133	5,366	220.13	3,518	774,417
4,300	5,570	231.35	3,212	743,096
4,467	5,774	242.57	2,873	696,904
4,600	5,936	251.48	1,734	436,066
4,725	6,089	260.34	1,601	416,804
5,375	6,882	307.92	10,301	3,171,884
6,500	8,254	397.78	4,614	1,835,357
7,500	9,482	486.15	2,447	1,189,609
8,350	10,553	569.24	1,642	934,692
9,200	11,624	654.92	1,052	688,976
10,050	12,695	740.60	844	625,066
10,900	13,766	826.28	702	580,049
11,750	14,845	913.32	531	484,973
12,600	15,960	1,001.80	431	431,776
13,450	17,065	1,090.20	374	407,735
14,300	18,250	1,185.00	333	394,605
15,150	19,250	1,267.00	275	348,425
16,000	20,568	1,370.44	270	343,019
16,850	21,707	1,461.56	222	324,466
17,700	22,846	1,552.68	195	320,773
18,550	23,984	1,643.72	196	322,169
19,400	24,968	1,722.44	143	246,309
20,250	26,521	1,846.68	154	284,389
24,587	32,030	2,287.40	777	1,777,310
32,922	44,223	3,262.84	307	1,001,692
41,257	56,963	4,282.04	139	595,204
49,592	70,274	5,346.92	75	401,019
57,927	83,725	6,423.00	40	256,920
66,602	94,836	7,311.88	29	212,045
74,497	108,591	8,412.28	13	109,360
82,932	124,452	9,781.16	13	127,155
91,267	138,789	10,828.00	14	151,592
99,602	148,598	11,613.00	10	116,130
107,937	163,185	12,780.00	8	102,240

Table 51-a (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$ 116,272	$ 177,770	$ 13,947.00	4	$ 55,788
124,607	192,515	15,126.00	5	75,630
132,942	207,352	16,313.00	4	65,252
141,277	222,247	17,505.00	4	70,020
149,612	237,334	18,712.00	4	74,848
157,947	252,441	19,920.00	4	79,680
166,282	267,716	21,142.00	4	84,568
175,719	285,081	22,531.00	4	90,124
200,922	332,114	26,294.00	1	26,294
213,374	355,670	28,179.00	3	84,537
226,577	380,625	39,175.00	3	90,525
243,864	413,196	32,781.00	2	65,562
318,729	554,987	44,124.00	1	44,124
407,730	724,172	57,659.00	5	288,295
578,247	958,857	76,434.00	3	229,302
695,421	1,273,659	101,618.00	2	203,236
1,125,574	2,095,254	167,345.00	1	167,345
1,195,204	2,228,446	178,001.00	2	356,002
Total Expected Liability				$47,648,024

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from the Oklahoma Tax Commission, Income Tax Division; from Prentice-Hall's Colorado State and Local Taxes; and The Federal Tax System: Facts and Problems.

Table 51-b

Estimated Oklahoma State Personal Income Tax Liability for 1963 with Application of Colorado Rates, Brackets, and Personal Exemptions; and Removal of Deductibility of Federal Income Tax: Individuals (Twenty Per Cent of Total Returns)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$ 50	$ 390	$ 11.70	1,780	$ 20,826
150	510	16.80	3,418	57,422
250	630	18.90	2,920	55,188
350	750	22.50	2,848	64,080
450	840	25.20	2,769	69,779
550	970	29.10	2,626	76,417
650	1,090	31.15	2,692	83,856
750	1,210	37.35	2,535	94,682
850	1,390	43.65	2,576	112,442
950	1,470	46.45	2,440	113,338
1,050	1,630	52.05	2,342	121,901
1,150	1,710	54.85	2,462	135,041
1,250	1,830	59.05	2,126	125,540
1,350	1,950	63.25	2,348	148,511
1,450	2,070	67.80	2,125	144,075
1,525	2,160	71.40	1,788	127,663
1,575	2,220	73.80	1,806	133,283
1,625	2,281	76.24	1,685	128,464
1,675	2,341	78.64	1,693	133,138
1,750	2,433	82.32	1,656	136,322
1,950	2,677	92.08	7,384	679,919
2,200	2,982	104.28	6,286	655,504
2,450	3,287	117.91	3,118	367,643
2,700	3,592	131.64	2,782	366,222
2,950	3,897	145.36	2,350	341,596
3,133	4,120	156.00	1,978	308,568
3,300	4,324	166.20	1,712	284,534
3,466	4,527	176.35	1,502	265,878
3,633	4,732	186.60	1,356	253,030
3,800	4,942	197.10	1,150	226,665

Table 51-b (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$ 3,967	$ 5,152	$ 208.36	1,000	$ 208,360
4,133	5,362	219.91	880	193,521
4,300	5,572	231.46	803	185,862
4,467	5,782	243.01	718	174,481
4,600	5,950	252.25	433	109,224
4,725	6,107	261.42	400	104,568
5,375	6,926	310.56	2,575	799,692
6,500	8,380	406.60	1,153	468,810
7,500	9,680	501.00	612	306,612
8,350	10,895	595.00	410	243,950
9,200	12,034	687.82	263	180,897
10,050	13,111	773.88	211	163,289
10,900	14,284	867.72	175	151,851
11,750	15,384	955.72	133	127,111
12,600	16,600	1,053.00	108	113,724
13,450	17,816	1,150.28	94	108,126
14,300	19,059	1,249.72	83	103,727
15,150	20,308	1,349,64	69	93,125
16,000	21,570	1,450.60	67	97,190
16,850	22,845	1,552.60	56	86,946
17,700	24,123	1,754.84	49	85,987
18,550	25,424	1,758.92	49	86,187
19,400	26,724	1,862.92	36	67,065
20,250	28,044	1,968.52	38	68,114
24,587	34,859	2,513.72	194	487,662
32,922	47,231	3,503.48	77	269,768
41,257	59,830	4,511.40	35	157,899
49,592	74,096	5,652.68	19	127,056
57,927	89,132	6,855.56	10	68,556
66,262	103,468	8,002.44	7	56,017
74,597	118,455	9,201.32	3	27,556
82,932	133,641	10,416.28	3	36,249
91,267	149,207	11,647.16	3	34,941
99,602	164,613	12,894.04	2	25,788
107,937	180,367	14,159.36	1	14,159

Table 51-b (continued)

Estimated 1963 Taxable Income (Per Return)	Estimated 1963 Taxable Income After Changes (Per Return)	Estimated Tax Liability Per Return	Number of Returns	Estimated Total Tax Liability After Changes
$124,607	$211,953	$17,863.88	2	$ 35,628
132,942	226,736	20,455.64	1	20,456
149,612	259,133	22,989.48	1	22,989
166,282	290,806	24,423.88	1	24,424
175,719	308,736	39,702.00	1	39,702
407,730	751,638	59,856.04	1	59,856
Total Liability Expected for Single Individuals				$11,623,109
Plus Expected Liability for Married Couples with One Dependent				47,648,024
TOTAL EXPECTED LIABILITY				$59,271,133

Source: Calculated by the author from unpublished data of number of income tax returns by amount of liability per return obtained from the Oklahoma Tax Commission, Income Tax Division; from Prentice-Hall's Colorado State and Local Taxes, and from The Federal Tax System: Facts and Problems 1964.

State of Indiana or any other taxing jurisdiction to the extent such taxes are deductible in determining federal adjusted gross income. Business expenditures are deductible, but no non-business expenditures such as charitable or medical expenditures are deductible. Each taxpayer receives an exemption of $1,000, plus $500 for his spouse and each person qualifying as a dependent. The Advisory Commission on Intergovernmental Relations estimated the yield of a two per cent flat rate income tax for each of the states using an income tax in 1965.[16] The two per cent rate was applied to the 1963 federal "taxable income" (adjusted gross income minus regular federal exemptions) and the yield was compared with the actual yield for the respective state in 1964.

For Oklahoma a two per cent flat rate personal income tax applied to the federal taxable income for the state in 1963 would have produced a revenue of $48,340,000 as compared to the actual yield of only $21,773,000. Oklahoma would have had an increase in personal income tax revenue of some $26,567,000 if the proportional rate tax had been used. All the regional states except Colorado could have significantly increased tax revenue by adopting the two per cent flat rate tax with the federal taxable income as the base. Colorado's actual yield was very close to the estimated yield of a two per cent flat rate for that state, even though Colorado's rate structure is progressive.

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[16]Advisory Commission on Intergovernmental Relations, op. cit., Table 23, p. 103.

Table 52

Yield of a Two Per Cent State Personal Income Tax for Selected STates, 1964

State	Federal Taxable Income (1953) (Millions of dollars)	Two Per Cent Yield (Thousands of dollars)	Actual Yield (1964)
Arkansas	$1,280	$25,600	$15,616
Colorado	2,663	53,260	52,521
Kansas	2,745	54,900	29,433
Louisiana	2,968	59,360	18,697
Missouri	5,830	116,600	63,726
New Mexico	962	19,240	9,197
Oklahoma	2,417	48,340	21,773

Source: Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes, October 1965, Table 23, p. 103.

Oklahoma's Corporate Income Tax

The research conducted for this chapter was primarily involved with examining the various alternatives for increasing the revenue from the Oklahoma state personal income tax. At least a brief consideration, however, must be given to the possibility of increasing the corporate income tax revenue in Oklahoma. Due to the complexities involved in taxing corporate income at the state level, arising largely from the inter-state nature of many corporations, the alternatives to be considered in this study as related to possible changes in the Oklahoma corporate income tax will be limited to estimating the amount of revenue that would have been produced in 1965 given certain changes in the tax rate, and given the elimination of the deductibility of the federal corporate income taxes paid.

All corporations, domestic or foreign, owning property or doing business in Oklahoma are subject to the state's corporate income tax, unless otherwise exempt. Those corporations exempt include corporations organized for educational, religious, or charitable purposes when no part of the net earnings go to the benefit of any private stockholder, individual, or member, and at least 50 per cent of net income is used for the benefit of Oklahoma citizens if expended within the taxable year or twelve months thereafter. Corporations organized exclusively for promotion of community funds or foundations, civic leagues, to promote social welfare, labor organizations, chambers of commerce, and similar functions are allowed the same exemptions with the same limitations. None of these are exempt as to unrelated income--gross

income less deductions directly allocated thereto and derived from any unrelated trade or business regularly carried on for purposes not substantially related to exempt purposes or functions of organization. Gross income includes dividends, interest and annuities, etc. Insurance companies are exempt when they pay gross premiums income tax.[17]

Possibility of Increasing Corporate Income Tax Revenue

The corporate income tax revenue for Oklahoma could be increased by either increasing the base by eliminating certain exemptions, or by increasing the tax rate, or by a combination of the two methods. In this study, the additional revenue produced by two rate changes is estimated, as well as the increase in revenue resulting from the elimination of the deductibility of the federal corporate income tax. The increase in corporate income tax revenue resulting from both a rate change and the elimination of the deductibility of federal taxes is also estimated.

Increases in Revenue Through Rate Changes

In 1965, Oklahoma collected $17,084,000 from the corporate income tax according to the Compendium of State Government Finances in 1965. This amount of revenue was generated by a tax rate of 4.0 per cent, and an estimated taxable corporate income of $427,100,000.[18] As mentioned above, one method of increasing corporate income tax revenue

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[17]Prentice-Hall, Oklahoma State and Local Taxes.

[18]Liability divided by rate gives the taxable base. $17,084,000 divided by 4.0 equals $427,100,000.

would involve increasing the tax rate. The amounts of additional revenue forthcoming from tax rates of 5.0 per cent and 6.0 per cent were estimated for 1965.

Of the seven surrounding states levying corporate income taxes, all but one levy a flat rate ranging from 2.0 per cent in Missouri to 5.0 per cent in Colorado (see Table 53). New Mexico levies a 3.0 per cent corporate income tax; Kansas levies 3.5 per cent, and Oklahoma and Louisiana both levy 4.0 per cent. Arkansas, the exception to the use of a flat rate, has a bracket system, with rates running from 1 per cent to 5.0 per cent. The national average state corporate income tax rate is about 5.0 per cent, which is equivalent to the highest rate imposed by any of the states in the regional group.

The first change in Oklahoma's rate to be considered would be raising the Oklahoma rate to 5.0 per cent, which would correspond not only to the highest rate imposed by any other regional state, but also to the national average. Such a rate increase would represent a 25.0 per cent increase in Oklahoma's tax rate, hence, should increase tax revenue by 25.0 per cent. Another way to estimate the increase in corporate tax income from the 5.0 per cent rate would be to simply apply the new rate of 5.0 per cent of the estimated tax base (taxable corporate income) in 1965, and subtract the amount actually collected. In either case, an increase in Oklahoma's rate on taxable corporate income to 5.0 per cent, from the current 4.0 per cent, would have yielded $4,271,000* more in 1965 than was actually collected.

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*Either (.25) ($17,084,000) = $4,271,000,
or (.05) ($427,100,000) - $17,084,000 = $4,271,000.

Table 53

Corporate Income Tax Rates and Treatment of Federal Corporate Income Taxes as Deductions for Oklahoma and Other Regional States

State	Federal Corporate Income Tax Deductible	Rate
Arkansas	No	Brackets: 1-5%
Colorado	No	5.0
Kansas	Yes	3.5
Louisiana	Yes	4.0
Missouri	Yes	2.0
New Mexico	Yes	3.0
Oklahoma	Yes	4.0

Source: Prentice-Hall Tax Reporting Service, State and Local Taxes, for each state.

The other possibility for a rate change would be to revert to the pre-1947 rate of 6.0 per cent. A six per cent rate in 1965, representing a 50.0 per cent increase in the tax rate, hence a 50.0 per cent increase in the tax rate, hence a 50.0 per cent increase in revenue, would have produced $8,542,000 more than the amount collected from the 4.0 per cent rate.

Elimination of the Federal Tax Deduction

A number of states, including Oklahoma, levying corporate income taxes permit corporate income taxes paid to the federal government to be deducted in computing state tax liability. Two of the regional states--Arkansas and Colorado--do not permit such deductions (see Table 53). The additional amount of revenue from the corporate income tax in Oklahoma resulting from repealing the provision allowing the federal corporate income taxes to be deducted in computing Oklahoma corporate income tax liability in 1965 is estimated below.

The basic problem arising in estimating the amount of additional revenue expected to be forthcoming from eliminating the deductibility of the federal corporate income tax is the type of data available on federal corporate income tax collections by state. Such data leave much to be desired as corporations typically file a single federal tax return at their headquarters or principal place of business, covering their total activities. Since many of the corporations have interstate operations and derive income in more than one state, Internal Revenue Service data tend to exaggerate the ratio of state to federal collections in the rural states and to understate it in the more

industrialized states.[19] Unfortunately, Internal Revenue Service data had to be used in this study, as no data concerning the amounts of federal income taxes claimed as deductions by corporations in Oklahoma are available from the Oklahoma Tax Commission.

Corporations in Oklahoma paid $163,948,000 in federal corporate income taxes in 1965.[20] It was assumed that this figure was approximately equal to the amount of corporate income taxes paid to the federal government deducted in computing the 1965 Oklahoma corporate income tax liability. If this deduction was disallowed, and the corporate income tax rate in Oklahoma remained at the present 4.0 per cent, Oklahoma in 1965 would have collected an additional $6,557,920 in corporate income tax revenue. If the rate had been 5.0 per cent, Oklahoma would have collected an additional $8,197,400 as a result of eliminating the deductibility of federal corporate income taxes, while a 6.0 per cent rate would have added $12,468,400.

If Oklahoma had imposed a 5.0 per cent rate on corporate income in 1965 and eliminated the deductibility of federal income taxes on corporate income, corporate income tax revenue in Oklahoma would have been $12,468,400 greater than actual 1965 collections. The imposition of a 6.0 per cent rate and the elimination of deductibility of the federal taxes would have increased Oklahoma's 1965 corporate income tax revenue by $18,374,880.

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[19] Advisory Commission on Intergovernmental Relations, Tax Overlapping in the United States 1964, p. 146.

[20] Internal Revenue Service, 1965 Annual Report of the Commissioner of Internal Revenue, p. 105.

Summary

A number of possible alternatives exist for increasing the income tax revenue in Oklahoma. Five alternative methods for increasing Oklahoma's state personal income tax revenue were considered in this chapter: the application of the rates, brackets, and personal exemptions of the pre-1947 Oklahoma personal income tax: the elimination of the deductibility of the federal income tax with the maintenance of the current Oklahoma rates, brackets, and personal exemptions; the application of Colorado rates, brackets, and personal exemptions; application of the Colorado rates, brackets, and personal exemptions plus the elimination of the deductibility of the federal income taxes; and the adoption of a two per cent flat rate income tax.

The expected revenue increase for Oklahoma's 1963 personal income tax revenue was calculated for each of the first four alternatives; and the expected increase in 1964 personal income tax revenue with the adoption of the flat-rate income tax was found in a study made by the Advisory Commission on Intergovernmental Relations.

If Oklahoma had used the pre-1947 rates and brackets, with the current personal exemptions, the expected revenue from the personal income tax in 1963 would have been some $9 million greater than the actual revenue. If the personal exemptions had also been changed to those existing prior to 1947, the expected increase in revenue would have amounted to $14 million. With the elimination of the federal income tax deductibility, and with the current rates, brackets, and personal exemptions, Oklahoma could have collected about $9.5 million

more in 1963.

The adoption of Colorado rates, brackets, and personal exemptions in 1963 would have resulted in an expected increase in personal income tax of about $24 million. If the Colorado rates, brackets, and personal exemptions had been applied, and the deduction of the federal income tax eliminated, Oklahoma could have expected to receive about $38 million additional in 1963 personal income tax revenue. With a flat-rate or proportional rate personal income tax of two per cent applied to the 1963 Oklahoma federal taxable income (adjusted gross income minus personal exemptions), the Advisory Commission on Intergovernmental Relations estimated the state would have received $26.6 million more in 1964 than actually collected.

The increase in corporate income tax in Oklahoma for 1965 was estimated for raising the rate to 5.0 per cent, and to 6.0 per cent; and eliminating the deductibility of federal corporate income taxes paid. If the rate had been 5.0 per cent in 1965, the increase in revenue would have been $4,271,000 with no change in the deductibility of federal taxes; or $12,468,400 if the federal taxes had not been deductible. A 6.0 per cent corporate income tax rate in 1965 would have produced an additional $8,542,000 in revenue with no change in the deductibility of federal taxes, or $18,374,880 had the federal tax deduction been removed.

CHAPTER V

INCREASING THE PRODUCTIVITY OF THE GENERAL SALES TAX

Characteristics of a State General Sales Tax

The objective of this chapter is to examine the possibility of increasing the state general retail sales tax revenue in Oklahoma. In view of that objective, the structure and yield of Oklahoma's general sales tax will be examined and compared with the structure and yields of the general sales taxes in Arkansas, Louisiana, Texas, New Mexico, Colorado, Kansas, and Missouri. Estimates of the additional revenue potential of Oklahoma's general sales tax will be made on the basis of assumed adoption of several alterations in the rates and tax base. A preliminary step, however, involves a discussion of the general nature of state general sales taxes in the United States.

Since the Great Depression of the 1930's, state governments have tended to rely more and more heavily upon sales taxes as important sources of state revenue. Although most of the early levies were regarded as temporary measures, consumers exhibited little opposition to the taxes on retail sales, and the popularity of the sales tax increased. The growing need for public expenditures following World War II forced the state governments to search for sources of additional revenue. The reliance upon the sales tax increased as more and more

states adopted sales tax legislation or increased the rates of existing sales tax laws. In 1965, a total of 37 states collected significant amounts of state revenue from the general sales taxes, with per capita amounts of revenue ranging from $109.00 in Washington and Hawaii down to $20.12 in Wisconsin. The average per capita sales tax revenue for all states levying such a tax was $34.37 for 1965.[1]

The Compendium of State Government Finances in 1965 defines general sales or gross receipts taxes as sales or gross receipts taxes which are applicable with only specified exceptions to all types of goods, all types of goods and services, or all gross income, whether at a single rate or at classified rates.[2] John F. Due defines a sales tax as ". . . a levy imposed upon the sales, or elements incidental to the sales, such as receipts from them, of all or a wide range of commodities."[3] Due also distinguishes the general sales tax from special or selective sales or commodity taxes, or excise taxes.

There are two major groups of sales taxes, according to Due--the multistage or "turnover" taxes and the single stage taxes.[4] Most state levies are single-stage levies, rather than multi-stage "turnover" taxes. A retail sales tax has a larger base than a tax imposed at an earlier stage in the production process. By imposing the tax on retail sales, the tax has the advantage of applying when the price is highest, thus insuring the largest possible tax base.

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[1]U. S. Bureau of Census, Compendium of State Government Finances in 1965, p. 58.

[2]John F. Due, Sales Taxation (Urbana: University of Illinois Press, 1957), pp. 3-4.

[3]Ibid. [4]Ibid.

The retail sales tax, or general sales tax, in effect, appears as an addition to the price which must be paid by a consumer buying at retail. Due defines the difference between a sales tax and a gross receipts business tax as primarily one of legislative intent.[5] Presumably the sales tax is shifted to the consumer, with the seller merely acting as a collector of the levy. A gross-receipts business tax may be thought of primarily as a charge for the privilege of carrying on business, and the burden is intended to fall upon the business firm.

Due suggests several reasons why the sales tax is required by law to be shifted to the consumer. First, in most states the legislators, anxious to minimize retailer antagonism toward the tax, recognized the retailers' preferences for direct quotation of the tax by making the practice mandatory. Secondly, in some instances the legislatures were also influenced by the belief that separate quotation of the tax would lessen the danger of price increases in excess of the amount of the tax. Separate quotation also has the advantage of reminding the public of the existence of the tax.[6]

If gross receipts are taxed, the levy is collected when payment for the transaction takes place. By taxing gross sales, sales on credit are taxable when the sale is made rather than when payment is received by the firm. When the use of the sales basis is required, no deduction for bad debts is permitted. However, refunds for returned goods are typically permitted.

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[5] Ibid., pp. 302-303.

[6] Ibid., pp. 302-303.

The base of the tax typically is the sales of tangible personal property. States frequently exempt items bought for resale. For items purchased to be used with other commodities to produce a new product for sale, the general practice is to apply the "physical ingredient" rule: if something purchased becomes an integral part of, or is physically incorporated into another good to be sold, then the first purchase is not taxed.[7]

A wide variety of items are often given special treatment. Food sold for human consumption is taxed in all states if consumed on the premises, but several states, Texas and California, for example, exempt the sale of food to be consumed off the premises. The sales of medicine are taxed in some states but exempted in others. Agricultural materials, such as fertilizers, feedstuffs, seeds, insecticides, normally are not taxable, nor are materials used in industrial plants. The machinery of agricultural and industrial plants is taxable in most states, but exempt in others. Sales of utilities are taxed in some states, but exempt in others. A wide variety of services frequently are exempt.

The extent of exemptions varies from state to state, and no doubt reflects largely the dominant interest groups of the political scene. The exemptions inevitably have the effect of reducing the tax base, thus requiring higher rates of taxation. Certain items, such as cigarettes and motor fuels, are typically exempt from the general sales tax because such items are subject to special excise taxes.

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[7]Tax Foundation, Inc., Retail Sales and Individual Income Taxes in State Tax Structures, Project Note No. 48 (New York: Tax Foundation, Inc., January 1962(, p. 24.

There are fewer problems in valuation of the tax base for the general sales taxes than for either the property tax or the income tax. The taxable sales are usually rather clearly defined. Problems do sometimes arise in determining the division of the total charges into taxable and exempt portions, or with trade-in allowances, or used articles which are to be resold, but these tend to be minor problems as compared to the problem of defining taxable income or valuing real estate.[8]

Sales taxes are collected by the State Agency from the vendors of taxable items, who collect the tax from purchasers at the time of the sale. All states require vendors to register with the state tax agency, which issues a certificate of registration. The majority of the states compensate vendors for collecting the sales tax by allowing a discount on the tax liability. Because of the widespread use of the bracket system, whereby small sales bring in more than the established rate, vendors often collect more than the tax liability calculated on their total sales volume. In at least 17 states the vendors are allowed to retain the excess receipts. Most states allowing no discount allow retention of the excess receipts.[9]

The rates of sales taxation vary among the states, ranging from two per cent to five per cent in 1967. Twenty-five states levied a three per cent tax, while eight states levied a two per cent tax. Only two

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[8]Advisory Commission on Intergovernmental Relations, Tax Overlapping in the United States, 1964, pp. 106-107.

[9]Ibid.

states levied five per cent taxes.[10] In most states, a system of brackets is used to facilitate the collection of the tax by the vendor.

The Use Tax

State governments have no taxing power beyond the boundaries of the respective state. Thus sales of products in one state cannot be subjected to the general sales tax of another state even though the products sold were purchased and consumed by the residents of the second state. In order to prevent the avoidance of their sales taxes, all states using sales taxes have enacted use taxes, at the same rate as the sales taxes, on goods purchased outside the state for use within the state.[11] Although the purchaser is liable for payment of the use tax to his state of residence, enforcement of this requirement is difficult, except in the case of registered items such as autos, boats, trailers, etc.

Relative Importance of General Sales Tax Revenue for Oklahoma

Revenue from the state retail sales tax constitutes an important source of revenue for Oklahoma, and for each of the surrounding states as well. In 1965, total revenue from the state general sales tax in Oklahoma amounted to $69,198,000 (see Table 54) which was equivalent to 19.4 per cent of the total state tax revenue for Oklahoma, or to 10.6 per cent of total state revenue. Obviously, the sales tax revenue

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[10]Prentice-Hall Tax Reporting Service, State and Local Taxes--All States.

[11]Ibid.

Table 54

State Revenue from General Sales Tax, as Per Cent of Total Tax Revenue, and as Per Cent of Total State Revenue, for Oklahoma and Regional States, 1965

State	Total Revenue From Sales Tax		Sales Tax Revenue as Per Cent of Total Tax Revenue	Sales Tax Revenue as Per Cent of Total State Revenue
	Total (Thousands)	Per Capita		
Arkansas	$ 76,230	$38.89	35.0%	20.6%
Colorado	63,494	32.25	23.7	13.2
Kansas	90,709	40.60	34.2	20.3
Louisiana	119,316	33.76	20.5	11.4
Missouri	215,910	48.00	41.7	26.4
New Mexico	63,068	61.29	33.5	17.3
Oklahoma	69,198	27.28	19.4	10.6
Texas	221,988	21.04	18.7	11.1

Source: Compendium of State Government Finance in 1965, Tables 4 and 7, pp. 11 and 19.

was an important source of revenue for Oklahoma, but how does the importance of the sales tax revenue in Oklahoma's state revenue structure compare with the importance of that particular tax in the revenue structures of the other seven states of the regional group?

Total general sales tax revenue in 1965 for the eight regional states ranged from $215,910,000 for Missouri to $63,068,000 for New Mexico. Oklahoma, with a total collection of $69,198,000 ranked sixth in the group. On a per capita basis, sales tax revenue varied from $21.04 per person in Texas to $61.29 per person in New Mexico. Oklahoma ranked seventh in the group with a per capita collection of $27.28

Sales tax revenue as a per cent of total tax revenue ranged from 41.7 per cent in Missouri to 18.7 per cent in Texas (see Table 54). Four states--Arkansas, Kansas, Missouri, and New Mexico--each collected at least one-third of total state tax revenue from the general sales tax. In contrast, Oklahoma and Texas each received less than 20 per cent of total tax revenue from the general retail sales tax. Sales tax revenue as a per cent of total state revenue was lowest in Oklahoma--10.6 per cent--and highest in Missouri--26.4 per cent. Arkansas, Kansas, and Missouri each reported receiving at least 20 per cent of total state revenue from the sales tax.

Apparently Oklahoma relied relatively less heavily upon the general sales tax as a revenue producer than did most of the surrounding states. This conclusion tends to gain support from the estimates of the sales tax paid by families of four and by individuals at selected income levels prepared by the Internal Revenue Service (see Tables 55

Table 55

State Sales Tax Estimates* for Families of Four by Selected Income Group, Oklahoma and Regional States, 1965

State	Income Group							
	Under $1,000	$1,500-$1,999	$2,500-$2,999	$4,000-$4,499	$5,500-$5,999	$6,500 $6,999	$8,500-$8,999	$19,000-$19,999
Arkansas	$26	$42	$56	$74	$ 90	$100	$117	$193
Colorado	27	41	53	68	80	88	102	159
Kansas	29	44	57	74	89	97	113	178
Louisiana	17	28	38	50	60	66	78	130
New Mexico	38	58	75	96	114	125	145	230
Oklahoma	17	28	37	49	60	66	78	129
Texas	10	16	22	31	38	42	50	87

Source: Internal Revenue Service, "Federal Income Tax Forms for 1965," p. 15.

*Does not include sales taxes on purchases of automobiles.

and 56). For example, a family of four, with an income between $6,500 and $6,999, would pay $66 in sales taxes in Oklahoma in a year, $100 in Arkansas, $88 in Colorado, $97 in Kansas, $66 in Louisiana, $125 in New Mexico, and $38 in Texas. (No comparable estimate was given for Missouri). The estimated tax paid by both families of four and individuals tended to be lower in Oklahoma than in Arkansas, Colorado, Kansas, and New Mexico for all given levels of income.

Relative Size of Tax Base

One possible explanation for Oklahoma's relatively poor yield from the general sales tax could be a limited tax base, namely, a relatively small volume of retail sales. If the volume of retail sales was relatively low in Oklahoma as compared to the volume of retail sales in the other states of the selected group, the potential sales tax revenue (on either a total or per capita basis) would be expected to be low, assuming the same rates were applied in Oklahoma as were applied in the other states. The total retail sales figure alone does not yield a great deal of information concerning the actual taxable sales base due to the presence of statutory exemptions, but the total retail sales data does give some indication of the size of the potential tax base. If Oklahoma's potential tax base (total retail sales) is small relative to those of the other seven regional states, this could at least partially explain why the state derives a smaller percentage of total tax and total state revenue from the general sales tax than the other states. Moreover, the size of the tax base would limit the prospect of obtaining increased revenue from the sales tax.

Table 56

State Sales Tax Estimates* for Individuals by Selected Income Groups, Oklahoma and Regional States, 1965

State	Income Group							
	Under $1,000	$1,500-1,999	$3,000-3,499	$4,000-4,999	$5,500 5,999	$7,000-7,499	$8,500-8,999	$19,000-19,999
Arkansas	$19	$30	$44	$52	$62	$71	$80	$128
Colorado	15	24	35	41	50	58	64	104
Kansas	17	27	39	45	54	63	69	110
Louisiana	12	20	29	35	42	48	54	89
New Mexico	23	36	52	62	74	86	96	157
Oklahoma	13	21	30	36	42	48	54	77
Texas	7	13	21	25	31	37	43	88

Source: Internal Revenue Service, "Federal Income Tax Forms for 1965."

*Does not include any sales tax on purchases of automobiles.

Unfortunately, accurate statistics on retail sales volume by state for recent years are not available, nor are accurate statistics for total taxable sales in Oklahoma. Sales Management, Incorporated, a private organization, estimates and publishes total and per capita retail sales statistics for each state on an annual basis. Although the validity of these estimates are subject to some controversy (see Chapter III) the errors, if any, should be consistent from state to state, assuming their methods of estimation are consistent and do not vary between states. In other words, if the estimate for Oklahoma is smaller than the true value of sales, the figures for all states should also be underestimated. Therefore, while these estimates may vary from the "true" or actual figure, for purposes of comparison of retail sales volume among states, the estimates should permit reasonably reliable comparisons.

Sales Management estimated Oklahoma's total retail sales in 1965 at $3,195,776,000, which was fourth highest in the group of eight states (see Table 57). Estimates for years 1961 through 1964 indicate that Oklahoma's relative position was constant. On the per capita retail sales basis, in 1964, Oklahoma was ranked fifth in the group (see Table 58). Per Capita sales tax revenue in 1965 (as reported in the Compendium of State Government Finances in 1965) as a percentage of total estimated retail sales (as reported by Sales Management) for the group ranged from 4.90 per cent for New Mexico down to 1.52 per cent for Texas. Oklahoma was seventh in the group with 2.16 per cent.

While Oklahoma does appear to have a somewhat smaller potential tax base as measured by retail sales volume, the relative size of that

Table 57

Estimated Total Retail Sales in Oklahoma and Regional States, Annually, 1961-1965

State	Year 1965	1964	1963	1962	1961
		(Thousands of dollars)			
Arkansas	$ 2,244,073	$ 2,067,374	$ 1,932,487	$ 1,821,084	$ 1,680,813
Colorado	3,145,093	2,884,202	2,695,867	2,592,861	2,521,689
Kansas	3,175,079	2,987,522	2,861,184	2,786,157	2,652,979
Louisiana	3,974,178	3,659,364	3,469,262	3,291,153	3,116,620
Missouri	6,891,478	6,289,209	6,201,567	5,902,567	5,563,213
New Mexico	1,287,418	1,218,710	1,196,664	1,137,563	1,063,005
Oklahoma	3,195,776	3,052,569	2,817,905	2,705,787	2,505,742
Texas	14,628,228	13,303,043	13,057,408	12,450,898	11,637,843

Source: Sales Management, June issues, 1962-1966.

Table 58

Estimated Per Capita Retail Sales in Oklahoma and Regional States, Annually, 1961-1964

State	Year 1964	1963	1962	1961
Arkansas	$1,127	$1,065	$1,006	$ 950
Colorado	1,884	1,383	1,373	1,339
Kansas	1,317	1,264	1,247	1,191
Louisiana	1,041	1,003	966	925
Missouri	1,402	1,392	1,267	1,267
New Mexico	1,175	1,174	1,111	1,059
Oklahoma	1,266	1,184	1,145	1,068
Texas	1,269	1,262	1,232	1,174

Source: Sales Management, June issues, 1962-1965.

Table 59

Total Sales Tax Revenue as Percentage of Total Estimated Retail Sales for Oklahoma and Regional States, 1965

State	Total Sales Tax Collections[a]	Total Estimated Retail Sales[b]	Total Sales Tax Revenue as Percentage of Estimated Retail Sales
	(Thousands of dollars)		
Arkansas	$ 76,230	$ 2,244,073	3.40%
Colorado	63,494	3,145,083	2.02
Kansas	90,709	3,175,079	2.86
Louisiana	119,316	3,974,178	3.00
Missouri	215,910	6,891,478	3.13
New Mexico	63,068	1,287,418	4.90
Oklahoma	69,198	3,195,776	2.16
Texas	221,988	14,628,228	1.52

Source: [a]Compendium of State Government Finances in 1965, Table 7, p. 19.

[b]Sales Management, June 1966.

base fails to adequately explain the relatively weak reliance upon the sales tax by Oklahoma. In Table 60, total sales tax collections, as reported by the Tax Commission, as a percentage of estimated retail sales declined annually from 2.20 per cent in 1961 to 2.07 per cent in 1965. The relative weakness of the Oklahoma sales tax perhaps lies at least partially in the rate structure and statutory definition of the tax base. These defects will be examined in the next section.

The Oklahoma General Sales Tax*

Oklahoma's first state sales tax was enacted in 1933, and imposed a one per cent tax on retail sales, admissions, and some services. This act was repealed in 1935, at which time a new law was enacted. In 1936 the law was amended to increase the rate to two per cent, with a one per cent tax being levied on untaxed merchandise brought into the state by consumers. The present sales tax law in effect in Oklahoma is basically the one enacted in 1941. Most of the changes in the sales tax law since its introduction in 1933 have consisted of extensions in the number of items to which the levy is applicable, although the rate was also increased, from one per cent to two per cent.

The sales tax law in Oklahoma levies a 2.0 per cent tax upon the gross proceeds or gross receipts derived from all sales to any person of tangible personal property and a number of services, dues, and like

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*The source of this discussion, unless otherwise noted, is the Prentice-Hall Tax Reporter: State and Local Taxes--Oklahoma.

Table 60

Total Retail Sales Tax Revenue as Percentage of Estimated Retail Sales in Oklahoma, Annually, 1961-1965

Year	Total Sales Tax Revenue[a]	Estimated Retail Sales[b]	Sales Tax Revenue as Percentage of Estimated Sales
	(Thousands of dollars)		
1961	$55,131	$2,505,742	2.20%
1962	57,344	2,705,787	2.12
1963	60,078	2,817,905	2.13
1964	63,545	3,052,659	2.08
1965	66,181	3,195,776	2.07

Source: [a]Biennial Reports of the Oklahoma Tax Commission.

[b]Sales Management, June issues, 1962-1966.

transactions. No deductions are allowed for costs of production. The term "gross receipts" includes the sales value of any foods, wares, merchandise or property consumed or used in any business or by any person, which has been purchased for resale, manufacturing, or further processing.

The tax is paid by the consumer or user, who is the person to whom the taxable sale is made, or to whom the taxable services are furnished. (Contractors are included in the definition of consumers.) A sales tax is an excise tax, the incidence and burden of which fall primarily upon the consumer. The seller is charged with the responsibility of reporting the tax for which he can reimburse himself by collecting from the buyer. The amount of the tax is added to the sale price imposed by the retailer and/or wholesaler making a retail sale. When added to the price, the tax constitutes a part of such price and shall be a debt from the consumer or user to the vendor until paid and is recoverable at law in the same manner as other debts. If the vendor refuses to collect the tax, or remits or rebates any part of the tax to the consumer, or absorbs or pays the tax himself through an adjustment in the retail price, he will be found quilty of a misdemeanor.

The <u>taxpayers</u> are the vendors and are divided into three groups: (1) those regularly and continuously engaged in business at an established place of business; (2) vendors who occasionally make sales; and (3) transient persons, firms, or corporations who make seasonal sales or in any manner become subject to the provisions of the Sales Tax Act. Taxpayers of the first two groups are required to secure permits to do

business from the Oklahoma Tax Commission.

The sales tax is due on the first day of each month for the preceeding calendar month and becomes delinquent if not paid by the fifteenth of the month. If the taxpayer files a proper return and remits the amount of sales tax before it becomes delinquent, he remits tax on only 97 per cent of total taxable sales. This claim to discount is forfeited if the return and remittance in full is not received by the Oklahoma Tax Commission within 5 days after the tax becomes delinquent.

The amount of the tax to be collected on each sale is two per cent of the gross proceeds or receipts of the sale, but for the convenience of the vendor in collecting the tax, the following brackets are used:

amount of sale	amount of tax
$0.01-$0.24	no tax
0.25- 0.74	one cent
0.75- 1.24	two cents

plus an additional penny for each additional $0.50 or fraction thereof. The use of the above bracket system does not relieve the vendor from the duty and liability to remit to the Oklahoma Tax Commission an amount equal to two per cent of the gross proceeds or gross receipts derived from all taxable sales during the taxable period.

Exemptions

A fairly large number of items are exempted from the sales tax. Sales of the following items are specifically exempt:

(1) Sales of non-intoxicating beverages (beer) covered by the Beverage Tax Act;
(2) Sales of cigarettes covered by the Cigarette Stamp Tax Act;
(3) Sales by farmers directly to consumers;

(4) Dues to various non-profit-seeking organization;
(5) Sales to or by Churches;
(6) Sales of food in school cafeterias;
(7) Sales to governmental units;
(8) Sales of gasoline or motor fuel on which the Motor Fuel or Gasoline Excise Tax has been paid to the State of Oklahoma;
(9) Sales of products subject to gross production tax;
(10) Sales of motor vehicles on which the motor vehicle excise tax has been paid during the calendar year;
(11) Sales by county, township, and state fairs;
(12) Sales of advertising space in newspapers, billboards, and magazines;
(13) Sales for resale to persons regularly engaged in the business of reselling the articles purchased, provided that such sales are made to persons to whom sales tax permits have been issued;
(14) Sales derived from the transfer of title to tangible personal property where made pursuant to the reorganization of a corporation or partnership;
(15) Gross receipts derived from the transportation of school children to and from grade or high schools.

Sales of goods to be used in manufacturing will be exempt from the levy only if they are purchased specifically for that purpose and if the goods become a "recognizable, integral part" of that product. The 1947 version of the law exempts two types of property under the theory that they are for resale: (1) that property that is purchased for the purpose of being manufactured into a finished article and when so manufactured, it becomes a component part of the manufactured article; and (2) property that is consumed in the process of manufacturing of products for resale, but not all property used in the process of manufacturing.

Proposals for Increasing Sales Tax Revenue

The revenue productivity of a state's sales tax is a function of the applicable tax rates, the rate structure, and the tax base. Increased revenues could be generated by adjustments either in the tax

base or in the rate structure and applicable tax rates, or by adjustments in both the base and rates. It would be possible to increase the revenue potential of sales taxes by extending the coverage to include retail activity now exempted or excluded from the tax base. Revenue could also be increased by increasing the statutory rates of the tax or by changing the brackets to which existing rates apply, assuming the total tax collected would be remitted. Combinations of higher statutory rates, different brackets, and a broader tax base offer possibilities of increased state revenue from the general sales tax.

Consideration will now be given to the expected effect on sales tax revenue in Oklahoma of (1) increasing the tax rate, and (2) increasing the tax base by reducing certain exemptions and subjecting more services to the tax. Due to the lack of information concerning the distribution of retail sales by the amount of sale, the effect on revenue due to changes in the tax brackets to which existing tax rate apply was not estimated. It is believed that the revenue increase in this case would be minor.

Increasing the Tax Rate

Oklahoma could increase sales tax revenue simply by increasing the statutory rates from two per cent to three or four per cent of taxable sales, with the present tax base remaining unchanged. How much additional revenue could the state expect to receive, given an increase in rate to three per cent or four per cent? Since the tax in effect represents an increase in price to the consumer, any discussion

or proposal involving an increase in statutory rates must take into consideration the rates imposed by the neighboring states, and the price-elasticity of demand for the taxable goods or services.

Of the eight regional states selected, four--Arkansas, Colorado, Kansas, and New Mexico--have statutory rates of 3 per cent, while the other four states--Oklahoma, Texas, New Mexico, and Missouri--have statutory rates of two per cent. Therefore, Oklahoma would not be significantly out-of-line with the other regional states by increasing the statutory rate to three per cent, and in view of recent national trends in rates of sales taxation, perhaps should not be reluctant to consider even an increase to 4.0 per cent.

If consumer demand is price-elastic, an increase in price will lead to a fall in total sales--the volume of sales will decrease by a larger percentage than the percentage increase in price. Unitary elasticity will cause the volume of retail sales to fall by a percentage equal to the percentage increase in price, while total sales will not fall if demand is inelastic. (In theory, the total volume of sales or revenue would be expected to rise with a price increase, given the assumption inelastic demand; however, in this case the increase in price is really the tax. Therefore, the rise in total revenue would include the tax, with the actual taxable sales volume remaining constant.) The obvious question which arises is: How responsive to a price increase is the demand for retail goods in Oklahoma? Or, more specifically, how responsive is demand to a price increase equivalent to the amount of additional sales tax corresponding to an increase of one or two per cent in the rate?

Table 61

Sales Tax Rates and Basis of Tax for Oklahoma
and Regional States, 1967

State	Tax Rate	Basis of Tax
Arkansas	3%	Gross Receipts
Colorado	3	Sales Price to Consumer
Kansas	3	Gross Receipts
Louisiana	2	Gross Retail Sales
Missouri	2	Sales: Gross Proceeds
New Mexico	3	Gross Receipts
Oklahoma	2	Gross Receipts
Texas	2	Sales Price Charged

Source: Prentice-Hall Tax Reporting Service, State and Local Taxes (for each state).

The answer to the above question depends upon the amount of the purchase, due to the use of the bracket system, and the varying effective rates of taxation within the brackets. In order to arrive at an answer, the effective rates on sales ranging from $0.01 to $1.00 under the present two per cent rate and the existing brackets were estimated.

No tax is levied on sales in amounts from one cent to 24 cents. The first bracket includes sales from 25 cents to 74 cents, with a tax of one cent levied upon sales falling into this bracket. The effective rate on sales in the first bracket range from a high of 4.0 per cent on sales of 25 cents in amount down to a low of 1.35 per cent on sales amounting to 74 cents. All sales in amounts between 25 cents and 49 cents are taxed at effective rates greater than 2.0 per cent (the statutory rate), while the sales ranging in amounts from 51 cents to 74 cents are taxed at rates lower than 2.0 per cent. The average effective rate on sales within the first bracket is 2.22 per cent (see Table 62).

The effective rate on sales from 75 cents to one dollar in amount ranges from 2.67 per cent on the first amount down to exactly 2.00 per cent on the latter. Thus all sales of amounts between 75 cents and 99 cents are taxed at rates greater than 2.00 per cent, but not more than 2.67 per cent. The average effective rate for the second division of sales is 2.30 per cent; while the average for sales in both divisions is 2.25 per cent. The effective rate on an average basis for all sales between one cent and one dollar is only 1.71 per cent due to the exemption of the sales in amounts of less than 25 cents.

Table 62

Effective Tax Rate on Sales in Amounts from One Cent to One Dollar, Under the Present Two Per Cent Rate and Existing Brackets for Oklahoma

Amount of Sale	Effective Tax Rate	Amount of Sale	Effective Tax Rate	Amount of Sale	Effective Tax Rate
$0.01	No Tax	$0.50	2.00%	$0.77	2.60%
0.24		0.51	1.96	0.78	2.56
		0.52	1.92	0.79	2.53
0.25	4.00%	0.53	1.89		
0.26	3.85	0.54	1.85	0.80	2.50
0.27	3.70			0.81	2.47
0.28	3.57	0.55	1.82	0.82	2.44
0.29	3.45	0.56	1.78	0.83	2.41
		0.57	1.75	0.84	2.38
0.30	3.33	0.58	1.72		
0.31	3.23	0.59	1.69	0.85	2.35
0.32	3.12			0.86	2.32
0.33	3.03	0.60	1.67	0.87	2.30
0.34	2.94	0.61	1.64	0.88	2.27
		0.62	1.61	0.89	2.25
0.35	2.86	0.63	1.59		
0.36	2.78	0.64	1.56	0.90	2.22
0.37	2.70			0.91	2.20
0.38	2.63	0.65	1.54	0.92	2.17
0.39	2.56	0.66	1.52	0.93	2.15
		0.67	1.49	0.94	2.13
0.40	2.50	0.68	1.47		
0.41	2.44	0.69	1.45	0.95	2.10
0.42	2.38			0.96	2.08
0.43	2.32	0.70	1.43	0.97	2.06
0.44	2.27	0.71	1.41	0.98	2.04
		0.72	1.39	0.99	2.02
0.45	2.22	0.73	1.37		
0.46	2.17	0.74	1.35	$1.00	2.00
0.47	2.13				
0.48	2.08	0.75	2.67		
0.49	2.04	0.76	2.63		

Average Effective Rate in First Bracket: 2.22%
Average Effective Rate in Second Bracket: 2.30%
Average Effective Rate for Both Brackets: 2.25%
Average Effective Rate on Sales from $0.01-$1.00: 1.71%

Source: Calculated by the Author, based on bracket information obtained from Prentice-Hall's State and Local Taxes--Oklahoma.

The effect of a rate increase of one per cent of total taxable sales will depend upon the brackets adopted and the size of the sale itself. It seems logical that the brackets adopted would be the same as those used in the municipal areas where the city sales tax has already been adopted. The brackets being used in those Oklahoma municipalities are:

amount of sale	amount of tax
$0.01-$0.14	no tax
$0.15-$0.44	one cent
$0.45-$0.74	two cents
$0.75-$1.14	three cents

In order to determine the price effect of an increase in the sales tax rate from two per cent to three per cent, the effective rates within the brackets were calculated for a 3.0 per cent sales tax rate, thus lending some clarification to the elasticity significance of such an increase in tax on sales in amounts from $0.01 to $1.00 (see Table 63).

The increase in the tax rate from two per cent to three per cent would have no effect on sales in amounts less than 15 cents, nor on those in amounts between 25 cents and 44 cents. The greatest impact would be on sales in amounts of 15 to 24 cents. The tax on a sale of 15 cents in amount would represent an increase in price to the consumer of 6.67 per cent, while on a purchase of 24 cents, the tax would be an increase in price of slightly more than 4.00 per cent.

The average effective rate on sales between 45 cents and 74 cents under the two per cent rate is 1.71 per cent, as compared to 3.43 per cent under the three per cent rate. The percentage increase in price

Table 63

Effective Tax Rate on Sales in Amounts from One Cent to One Dollar, Under Three Per Cent Rate and Brackets Applying to Sales in Municipalities in Oklahoma Levying the City Sales Tax

Amount of Sale	Effective Tax Rate	Amount of Sale	Effective Tax Rate	Amount of Sale	Effective Tax Rate
$0.01	No	$0.43	2.32%	$0.72	2.78%
0.14	Tax	0.44	2.27	0.73	2.74
				0.74	2.70
0.15	6.67%	0.45	4.44		
0.16	6.25	0.46	4.36	0.75	4.00
0.17	5.89	0.47	4.25	0.76	3.95
0.18	5.56	0.48	4.17	0.77	3.90
0.19	5.26	0.49	4.08	0.78	3.85
				0.79	3.80
0.20	5.00	0.50	4.00		
0.21	4.76	0.51	3.92	0.80	3.75
0.22	4.54	0.52	3.84	0.81	3.70
0.23	4.35	0.53	3.78	0.82	3.66
0.24	4.17	0.54	3.70	0.83	3.61
				0.84	3.57
0.25	4.00	0.55	3.63		
0.26	3.85	0.56	3.57	0.85	3.53
0.27	3.70	0.57	3.50	0.86	3.49
0.28	3.57	0.58	3.45	0.87	3.45
0.29	3.45	0.59	3.39	0.88	3.41
				0.89	3.37
0.30	3.33	0.60	3.33		
0.31	3.23	0.61	3.28	0.90	3.33
0.32	3.12	0.62	3.22	0.91	3.30
0.33	3.03	0.63	3.17	0.92	3.26
0.34	2.94	0.64	3.12	0.93	3.22
				0.94	3.19
0.35	2.86	0.65	3.08		
0.36	2.78	0.66	3.03	0.95	3.16
0.37	2.70	0.67	2.98	0.96	3.12
0.38	2.63	0.68	2.94	0.97	3.09
0.39	2.56	0.69	2.90	0.98	3.06
				0.99	3.03
0.40	2.50	0.70	2.86		
0.41	2.44	0.71	2.82	$1.00	3.00
0.42	2.39				

Average Rate First Bracket: 3.78%
Average Rate Second Bracket: 3.43
Average Rate Third Bracket: 3.45
Average Rate on Sales of $0.01-$1.00: 3.03

Source: Calculated by the Author, based upon bracket information obtained from the Oklahoma Tax Commission.

to the consumer resulting from the increase in tax ranges from 2.17 per cent on sales in amounts of 45 cents down to 1.33 per cent on sales in amounts of 74 cents.

The average effective rate of taxation on sales between 75 cents and one dollar under the two per cent levy is 2.30 per cent, as compared to 3.45 per cent under the three per cent rate. The increase in tax represents a price increase of 1.30 per cent on sales in amounts of 75 cents, and falls to 1.02 per cent on sales of $1.00 in amount.

Based upon the above observations, it was assumed that the demand in Oklahoma would be price inelastic for the relatively small increases in price resulting from the imposition of an additional one or two cents in sales tax. Although the percentage increase in price would be rather large for sales of certain amounts, particularly those in amounts between 15 and 24 cents, the size of the sale would normally be so small in relation to the consumer's total budget that the likelihood of price inelasticity seems quite probable.

If the rate was increased to 3.0 per cent of the total taxable retail sales, the estimated increase in revenue would have been $33,090,611* in 1965. If the statutory rate was doubled, that is, increased to 4.0 per cent, the estimated revenue increase for 1965 would have been $66,181,222.* In other words, an increase in the statutory rate from two per cent to three per cent of total taxable sales, an increase of 50 per cent in the tax rate, would result in an

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*(0.50) ($66,181,222) = $33,090,611

(1.00) ($66,181,222) = $66,181,222

expected increase in sales tax revenue of 50 per cent (assuming no change in the base); and if the rate is increased by 100 per cent (from 2.0 per cent to 4.0 per cent) the expected revenue increase would be 100 per cent. These estimates, of course, are based upon the assumption of complete or perfect price inelasticity of demand.

Allowance for Municipal Sales Taxes

One problem confronting a rate increase in the Oklahoma state general retail sales tax is the fact that municipalities in Oklahoma are allowed to levy a one cent city retail sales tax for municipal revenue purpose. A number of Oklahoma municipalities, beginning with Oklahoma City in 1966, have passed city sales tax ordinances. As of August 1968, a total of 49 Oklahoma municipalities, including the two largest cities, Oklahoma City and Tulsa, had adopted one cent city sales taxes. As a result, the consumers of those municipalities are currently paying a greater sales tax rate than consumers purchasing in the other retail markets of the state. Possibly the state might wish to take this into consideration when considering the possibility of increasing the state retail sales tax.

The state could increase the state sales tax rate to 3.0 per cent of total taxable sales, with the provision that the extra one per cent would be waived on sales in those municipalities levying the one cent city sales tax. The result would be, of course, a decrease in the expected revenue increase for the state, but the sales tax rates would be equalized for all the residents of Oklahoma. The estimated effect of raising the tax rate to 3.0 per cent on 1965 revenue was

approximately $33,090,711 additional revenue. Municipalities in fiscal year 1966, which runs from July 1, 1965 to June 30, 1966, collected $3,709,781 in sales tax revenue.[12] If the assumption is made that this amount is roughly half the amount cities would have collected in 1965 had the city sales tax been in effect, the total estimated city sales tax revenue in fiscal year 1965 would have been $7,419,562.[13] If this amount was waived from the state sales tax revenue, the state would have received $7,419,562 less in additional revenue than previously estimated.

Naturally the diminishing effect of such a provision would grow stronger as more municipalities adopted the local sales tax. The state could, however, significantly increase state tax revenue and at the same time equalize the sales tax rate in Oklahoma by adjusting the sales tax statutory rate to 4.0 per cent, with one per cent deductable in those cities where city sales tax had been adopted. Thus the state rate would be 3.0 per cent in municipalities and 4.0 per cent in other areas of the state. Moreover, each municipality would naturally adopt the one cent sales tax levy since the tax would otherwise go to the state. The end result would be equalized rates throughout the state, additional revenue for the state, and additional revenue for municipalities.

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[12] Seventeenth Biennial Report of the Oklahoma Tax Commission, p. 17.

[13] The tax was collected for only part of fiscal year 1966, as the tax was enacted after the fiscal year was at least half over.

Effect of Exempting the Sales of Food

A frequently heard criticism of the general retail sales tax is that although the rate itself is constant, the tax, in effect, is regressive rather than proportional, as it is assumed that people in lower income levels expend larger percentages of their incomes on taxable products do people with high levels of income. It is generally accepted that because food, particularly food to be consumed off the premises, is so important an expenditure in the family budget, its inclusion in the general sales tax base contributes greatly to the regressivity of that tax.

Several studies have been conducted to investigate the effect the taxation of food has on the regressivity of the general sales tax. In one such study, the removal of food consumed at home very definitely reduced the regressivity of the general sales tax and introduced a high degree of proportionality at middle income levels.[14]

Several states, including Texas among the regional states, now exempt the sales of food to be consumed off the premises from the sales tax. Although Oklahoma taxes such sales under the present law, it is quite possible that the adoption of higher rates of taxation would be accompanied by either the complete exemption of sales of food to be consumed off the premises, or maintaining the present rate of taxation on such food sales while raising the tax on sales of other items. The effect on potential revenue increases was estimated for both these possible changes.

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[14]Reed H. Hansen, "An Empirical Analysis of the Retail Sales Tax with Policy Recommendations," National Tax Journal, March 1962.

In 1965, state general sales tax collections in Oklahoma amounted to $11,886,933 from grocery stores and meat markets, and $604,586 from bakeries, dairies, and delicatessens.[15] Since two groups of retail enterprises account for most of the sales of food to be consumed off the premises, total 1965 sales tax revenue from such sales amounted to about $12,491,519.

How much would potential additional sales tax revenue be reduced if the sales tax rate was increased to 3.0 or 4.0 per cent, and the sales of food to be consumed off the premises were exempted completely from the tax? Previously it was estimated that a 3.0 per cent rate in 1965 would have resulted in sales tax revenue increase of $33,090,711, which would mean total sales collections of $99,271,833; while a 4.0 per cent rate would have doubled total sales tax revenue, that is, raised total sales tax revenue to $132,362,444 in 1965.

If the sales of food consumed off the premises were exempted, and the rate raised to 3.0 per cent, the total expected revenue would have been $80,534,555.* The effect on potential revenue increase would be to reduce it from $33,090,711 to $14,433,943. If the rate had been 4.0 per cent, the total tax collections would have been $107,379,406,** which would indicate an increase of $41,379,506 rather than $66,362,444.

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[15]Oklahoma Tax Commission, Oklahoma Sales Tax and Use Tax, Statistical Report for the Fiscal Year Ending June 30, 1966, Table 1.

*($66,181,222 -- $12,491,519)(1.5) = $80,534,555
($66,181,222 -- $12,491,519)(2.0) = $107,379,406.

**($66,181,222 -- $12,491,519)(1.5) = $80,534,555
($66,181,222 -- $12,491,519)(2.0) = $107,379,406.

Another possibility would be to increase the overall rate to 3.0 per cent or 4.0 per cent, with the 2.0 per cent maintained on food sales, that is, food to be consumed off the premises. The reduction in the potential recenue increase would be equivalent to 50 per cent of the tax revenue produced from food sales with a 2.0 per cent rate, or $6,245,759, if the new rate of 3.0 per cent applied to all other sales. If the overall rate was 4.0 per cent, while the tax rate on food sales remained at 2.0 per cent, the effect would be a reduction of $12,491,519, or an amount equal to 100.0 per cent of the tax revenue from sales of food to be consumed off the premises, in the potential revenue. Under the assumption of maintaining the current rate of 2.0 per cent on sales of food to be consumed off the premises, and raising the overall rate, a rate of 3.0 per cent would lead to an increase of $26,744,953, and a rate of 4.0 per cent would provide an additional $53,689,703 in revenue.

Eliminating the sales of food consumed off the premises, or of increasing the overall rate while maintaining the present 2.0 per cent on such sales of food, would significantly affect the amount of expected additional revenue forthcoming from increases in the tax rate. The effect of reducing regressivity of the sales tax might be an important political factor in the adoption of higher rates, and in that sense, the prospect of such exemptions should not be dismissed lightly.

Increase in the Use Tax Rate

The first use tax in Oklahoma, enacted in 1937, imposed an excise tax of 2 per cent upon every person using, within the state, any article

of tangible personal property purchased, leased, rented, or exchanged for the privilege of using such property. This act was repealed and superceded in 1939 by an act which imposed a tax of two per cent of purchase price on the storage, use, or other consumption in the state of Oklahoma of tangible personal property. Simply stated, the use tax is imposed on tangible personal property purchased outside of Oklahoma and brought into the state.

The use tax rate is the same as the state general sales tax rate in every state using the general sales tax, including Oklahoma. If the general sales tax rate is increased, the use tax rate would also be increased. How much additional revenue would Oklahoma have gained in 1965 from the use tax if the rate had been increased to 3 or 4 per cent?

Total use tax collections in Oklahoma in 1965 amounted to $3,017,254 (see Table 15, Chapter II). Given the two per cent rate in effect, the use tax collection corresponded to a tax base of $150,862,700. If a rate of 3 per cent were applied to this estimated base, the expected use tax revenue would be $4,524,881, which would represent an increase of $1,507,627 over the actual use tax collection in 1965. A rate of 4 per cent applied to the estimated tax base would yield a revenue of $6,033,508, which would be equivalent to doubling the use tax revenue. The above estimated are based on the assumption that no significant tax evasion would result from the increase in the use tax rate.

Broadening the Tax Base

As an alternative to, or in addition to, increasing the statutory sales tax rate, Oklahoma could again gain additional revenue by "broadening" the tax base, that is, by including the sales of certain items and services now exempt. While a fairly large number of exemptions exist, the elimination of two types of exemptions appear to offer the greatest possible revenue effect: the exemption of sales of beer, cigarettes, gasoline. and motor vehicles, which have been exempted due to the imposition of special excises on these items; and the exemption of a number of services under the definition of taxable sales as being primarily those of tangible personal property. The elimination of these two types of exemptions would no doubt raise sales tax revenue by a significant amount. In the following section, the amount of increase in revenue arising from the removal of these exemptions will be estimated.

Elimination of the exemption of Sales of beer, Cigarettes, Gasoline, and Motor Vehicles

Among the rather numerous exemptions of the Oklahoma general retail sales tax are items subject to special excises, including non-intoxicating beverages (beer), cigarettes and tobacco products, gasoline and motor fuels, and motor vehicles. The question now posed is: How much can general sales tax revenue in Oklahoma be increased if the sales of the above mentioned items, or at least beer, cigarettes, gasoline, and motor vehicles, were subjected to the sales tax levy?

Strong arguments no doubt would be raised in opposition to removing any items subject to special excises from the tax-exempted list applicable to the general sales tax. The old argument that to do so would involve taxation of taxes would surely be raised. Due takes a position in support of removing these exemptions, by suggesting that many states made the initial error of exempting commodities subject to state excise taxes, particularly on gasoline and tobacco products, from the sales tax and most states have been slow to correct the mistake.[16] This type of exemption creates unnecessary administrative problems. If the combined burden of the sales taxes and excises is considered excessive adjustments can be made more easily in the latter, according to Due; however, such an adjustment in excises is not recommended in this study.

There is no uniformity among the regional states with regard to the inclusion or exclusion of the sales of beer, cigarettes, and motor vehicles from the general sales tax, although each of the eight states exempts the sale of motor fuel or gasoline (see Table 64). Cigarettes are subject to the general sales tax in Colorado, Louisiana, Missouri, and New Mexico. Sales of beer are taxable in all of the states except Kansas and Oklahoma, while motor vehicle sales are taxable in all except New Mexico, Oklahoma, and Texas. Only Oklahoma has exempted the sales of all four items.

Due to the lack of data relating to the volume of retail sales of beer, cigarettes, gasoline, and motor vehicles in Oklahoma, it was

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[16] Due, op. cit., p. 301.

Table 64

Sales Tax Treatment of Cigarettes, Beer, Gasoline, and Motor Vehicles in Oklahoma and Regional States (T = Taxable, NT = Exempt)

State	Cigarettes	Beer	Gasoline	Motor Vehicles
Arkansas	NT	T	NT	T
Colorado	T	T	NT	T
Kansas	NT	NT	NT	T
Louisiana	T	T	NT	T
Missouri	T	T	NT	T
New Mexico	T	T	NT	NT
Oklahoma	NT	NT	NT	NT
Texas	NT	T	NT	NT

Source: Prentice-Hall Tax Reporting Service, State and Local Taxes (each state).

necessary to make an estimate of the volume of such retail sales based upon certain data collected by the Oklahoma Tax Commission. The accuracy of the estimate of potential tax revenue will be dependent upon the accuracy of the estimates of the retail sales volume of each item.

Beer sales in Oklahoma are subject to an excise of $10 per barrel on barrels equivalent to 31 gallons or more. Figures published by the Oklahoma Tax Commission, Beverage Tax Division, indicate that the state excise was collected on a total of 689,833 barrels of beer in the fiscal year ending 1965. Based upon an expectation that this number of barrels closely approximated the physical volume of beer retailed in Oklahoma during that period, the volume of retail sales of beer could be estimated if an average price per barrel was available. The excise is shifted to the consumer in the form of a higher price. If the average price selected included the excise, the total sales figure would be higher than if the state excise was not included.

If each barrel of beer was a 31 gallon barrel, and based upon an average retail price per quart of $0.49 (average price in Safeway supermarkets in Oklahoma in 1965),[17] including the state excise, the average retail price of a barrel of beer would be approximately $62.00. If the excise tax was excluded, the retail price would be about $52.00 per barrel. Total beer sales in Oklahoma for fiscal 1965 can then be estimated at $42,769,546, including excise. Since the collection of the sales tax would be somewhat more complicated for vendors if the

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[17]Price data obtained from price and order books for Safeway Stores, Inc., Oklahoma City District, Western Oklahoma Zone.

excise was excluded, it will be assumed that the excise will be included in the taxable sale price.

Cigarette sales in Oklahoma in 1965 were subject to a state excise of $0.07 per package on the ordinary package of 20 cigarettes. (The rate is now 8 cents per pack). In fiscal year 1965 the Cigarette and Tobacco Tax Division of the Oklahoma Tax Commission collected $19,193,890 in excise revenue on cigarette sales. From this data, it is possible to estimate the number of packages of 20 cigarettes sold--273,669,070--in fiscal year 1965, by dividing the total excise revenue by the 1965 excise per package (7 cents). Based upon an average price, including both state and federal excises, of $2.84 per carton of 10 lackages (price in Safeway supermarkets during 1965 in Oklahoma),[18] total estimated sale of cigarettes in Oklahoma for 1965 was $77,722,016. This figure would be lower if the excise was excluded from the taxable sale price; however, it was assumed that the excise would be included.

Gasoline sales in Oklahoma are subject to total excise of 6.58 cents per gallon. In fiscal year 1965, a total of 1,211,241,009 gallons of gasoline were subjected to the state excise. Based upon an average price of 31 cents per gallon, including both federal and state excises, total gasoline sales in Oklahoma for 1965 were approximately $375,515,713.

Motor vehicle sales are subject to an "in lieu" tax of 2.0 per cent in Oklahoma. While the tax is in lieu of the state's general sales tax,

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[18] *Ibid*.

in order to calculate or estimate the potential revenue for the state, it will be treated in much the same fashion as an excise. That is, the possibility of subjecting the sale of motor vehicles to the general sales tax as well as the "in lieu" tax will be considered. The Oklahoma Tax Commission, Motor Vehicle Tax Division, reported collecting $11,277,445 in Motor Vehicle Tax revenue in fiscal year 1965, which would correspond to total retail sales of approximately $563,872,250--(50 . $11,277,445)--based upon the assumption that the excise revenue represented exactly 2.0 per cent of total sales.

The addition of the sales of beer, cigarettes, gasoline, and motor vehicles to the general sales tax base, with the retail price of cigarettes, beer, and gasoline including the excises (both state and federal), would have increased the 1965 tax base by more than one billion dollars (see Table 65). The sales tax revenue from beer sales alone with a two per cent rate would have been an estimated $855,391, or $1,283,086 if the rate had been 3 per cent of taxable sales. Cigarette sales, if taxed at a rate of 2 per cent, would have increased sales tax revenue in 1965 by an estimated $1,554,440, or if taxed at a rate of 3 per cent, would have increased revenue by about $2,331,660. Gasoline sales would have provided an additional $7,510,314 if taxed at a 2 per cent rate, or about $11,265,471 if taxed at a 3 per cent rate. Sales of motor vehicles would have provided the greatest increase in sales tax revenue--$11,277,445 if taxed at a rate of 2 per cent, and $16,916,167 if taxed at a 3 per cent rate. Total additional sales tax revenue for the State of Oklahoma in 1965 gained by removing beer,

Table 65

Estimated Revenue Effect of Applying General Sales Tax to Sales of Cigarettes, Beer, Gasoline, and Motor Vehicles in Oklahoma, 1965

Item	Total Excise Tax[a]	Total Physical Volume	Estimated Retail Sales	Estimated Potential Tax Revenue	
				2 per cent	3 per cent
Beer	$ 6,993,998	689,833[a] barrels	$ 42,769,546	$ 855,391	$ 1,283,086
Cigarettes	19,156,835	273,669,070[b] pkg.	77,722,016	1,554,440	2,331,660
Gasoline	----------	1,211,341,009[a] gal.	375,515,713	7,510,310	11,265,471
Motor Vehicles	11,277,445	----------	563,872,250	11,277,445	16,916,167
Total			$1,059,879,525	$21,197,590	$31,796,384

Source: [a]Seventeenth Biennial Report of the Oklahoma Tax Commission.

[b]Estimated by the author.

cigarettes, motor vehicles, and gasoline exemptions was estimated to amount to $21,197,590 assuming a 2 per cent rate, and $31,796,384 assuming a 3 per cent rate.

Taxation of Services

The Oklahoma general sales tax base could be expanded to include the taxation of a number of services now exempted from the sales tax. The sales tax in Oklahoma is now levied primarily on retail sales of tangible personal property; however, certain services are already taxable.

Advertising is taxable except space in newspapers, periodicals, and billboards. The rental and servicing of advertising equipment is also taxable. The operation of a hotel, apartment-hotel, cottage camp or lodging house open to the public is a taxable activity in Oklahoma. Ordinary rentals of real property are not taxable, nor are rentals of rooms in private homes or in apartments not open to transients. The gross proceeds or gross receipts derived from the rental and lease of all forms and types of tangible personal property, where the possession of such property passes to the lessee, are taxable.

Installation charges, unless billed separately, are taxable. Sales of personal services by service stations, and garages are exempt from the sales tax, but the sales of tangible personal property (except gasoline) are taxable. Taxi fares in excess of $0.15 are taxable. Undertakers are engaged in selling tangible personal property, except for services rendered. If not itemized, the general sales tax applies to not less than 60 per cent of gross proceeds received by undertakers.

All public utilities sales are taxable except the sale of water. Service by telephone and telegraph companies to subscribers or users is taxable. Printing is taxable. Storage or parking privileges by auto hotels and parking lots are taxable. Transportation hire of persons by common carrier is taxable.* Sale of services made for the purpose of developing and improving real estate is taxable.

An attempt was made to estimate the revenue that would be forthcoming should the State of Oklahoma extend coverage of the sales tax to include services not now taxable by following a procedure utilized by the Ohio Tax Study Committee.[19] The volume of expenditures for the exempted and excluded services were not available, and therefore had to be estimated. The validity of the estimates of potential sales tax revenue depends naturally upon the reliability of the estimate of expenditures for these services.

The Ohio Tax Study Group adopted two methods for deriving Ohio service expenditures from national data. These two procedures were used to derive Oklahoma's service expenditures in the same fashion. The United States Bureau of the Census publishes data on the total sales of each kind of business by state in the United States, in its Census of Business, Selected Services. Data contained in the most recent Census of Business for Oklahoma (1963) provided an estimate of

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*Local transportation of persons within the corporate limits of cities and towns (excluding taxicabs) are exempt.

[19] George W. Thatcher, Tax Revision Alternatives for the Tax System of Ohio (Columbus, Ohio: Ohio Tax Study Committee, 1962).

the expenditures in Oklahoma for a number of services (see Table 66).

The Bureau of Census data published for selected services do not include medical, legal, broker, bank, or certain other selected service expenditures by state. The method used by the Ohio Tax Study Group for estimating the expenditures for the services not included in the Census of Business was to assume that residents of the state made their personal consumption expenditures in generally the same distribution (percentagewise) as the national distribution, that is, the data for the state's expenditures on services may be based upon the same ratio of selected services expenditures to personal consumption expenditures. The national personal consumption expenditures were first expressed as a percentage of national personal income. This ratio was then applied to the state's personal income. The ratio of national service expenditures to national consumption expenditures was then applied to state consumption expenditures to get an estimate of state expenditures for selected services. The estimate could also be made by expressing the national service expenditures as a percentage of personal income, and then applying the percentages to state personal income. This alternative was adopted for this study in making the estimates for Oklahoma (see Tables 67, 68, and 69).

Table 66 shows the receipts in Oklahoma in 1963 for service businesses as reported by the U. S. Bureau of Census, 1963 Census of Business, Selected Services--Oklahoma. Several categories of services included are already taxed by the general sales tax in Oklahoma. If it was not readily apparent that the service listed was exempt from the

Table 66

Expenditures (Receipts) for Selected Services in Oklahoma, 1963, and Estimates of General Sales Tax Revenue Potential for Rates of Two Per Cent and Three Per Cent

Kind of Business	1963 Receipts	Potential Sales Tax Revenue[a]	
		Two Per Cent	Three Per Cent
Hotels, Motels, Tourist Courts, Camps	$40,110,000	Taxable	$ 401,100[b]
Personal Services			
Laundries, Laundry Service, Cleaning, Dyeing Plants	42,643,000	$ 852,860	1,279,290
Beauty Shops, including combo B¢auty-barber Shops	17,058,000	341,160	511,740
Barber Shops	9,763,000	195,260	292,890
Photographic Studios, including Commercial Photography	5,357,000	107,140	160,710
Shoe-repair, Shoeshine, Hat Cleaning Shops	1,930,000	38,600	57,900
Funeral Service, Crematories	17,048,000	340,960	511,440
Pressing, Altering, Garment Repair, Fur Storage	1,867,000	37,340	56,010
Miscellaneous Personal Services	1,940,000	38,800	57,200
Miscellaneous Business Services			
Advertising	18,220,000	Taxable	182,220
Credit Bureaus, Collection Agencies	3,352,000	67,040	100,560
Direct Mail Advertising, Duplicating and Copy Services, Stenographic Service	5,045,000	100,900	151,350
Services to dwellings and other Buildings	7,957,000	159,180	238,770
Business Mgt. Consulting, Public Relations	14,047,000	280,940	421,410
Equipment Rental	8,515,000	170,300	255,450
Other	27,878,000	557,560	836,340

Table 66 (continued)

Kind of Business	1963 Receipts	Potential Sales Tax Revenue[a] Two Per Cent	Three Per Cent
Auto Repair, Services, Garages			
Auto Repair Shops	$48,124,000	$ 962,480	$1,443,720
Auto Parking	3,494,000	Taxable	34,940[b]
Auto, Truck Rentals, Services (except repair)	17,859,000	178,590[c]	267,885[c]
Miscellaneous Repair Services			
Electrical Repair Shops	10,421,000	208,420	312,630
Watch, Clock, Jewelry Repaid	740,000	14,800	22,200
Reupholstery, Furniture Repair	2,743,000	54,860	82,290
Miscellaneous Repair Shops	30,509,000	610,180	915,270
Motion Pictures			
Production, Distribution, Services	2,396,000	Taxable	23,960[b]
Theatres	13,609,000	Taxable	136,090[b]
Amusements, Recreation Services Except Motion Pictures			
Dance Halls, Studios, Schools	998,000	Taxable	9,980[b]
Bands, Orchestras, Entertainers	1,382,000	Taxable	13,820[b]
Theatrical Presentations	687,000	Taxable	6,870[b]
Bowling, Billiards, Pool	10,649,000	Taxable	106,490[b]
Commercial Sports	2,236,000	Taxable	22,360[b]

Table 66 (continued)

Kind of Business	1963 Receipts	Potential Sales Tax Revenue[a]	
		Two Per Cent	Three Per Cent
Public and Membership Golf and Country Clubs	$1,735,000	Taxable	$ 17,350[b]
Other Commercial Recreation	1,298,000	Taxable	17,980[b]
Other Commercial Amusements	9,528,000	Taxable	95,280[b]
Total Potential Sales Tax Revenue		$5,288,250	$9,286,260

Source: U. S. Bureau of the Census, Selected Services--Oklahoma, p. 2.

[a]If the sale of the service was not clearly exempt, it was assumed to be taxable under the present sales tax law.

[b]Additional revenue potential by increasing tax rate to 3 per cent.

[c]Reduced by 50 per cent to allow for partial taxation.

Table 67

U. S. Consumption Expenditures for Selected Services, 1965, and as Percentage of Personal Income

Service Group	Expenditures (thousands of dollars)	Expenditures as Percentage of Personal Income
Physicians, Dentists, Other Professional Services	$11,854,000	2.22%
Privately Controlled Hospitals and Sanitariums, Medical Care, and Hospitalization Insurance	10,407,000	1.94
Brokerage Charges and Interest, and Investment Counseling	2,074,000	0.39
Bank Service Charges, Trust Services, and Safe-Deposit Box Rental	1,395,000	0.26
Services Furnished without Payment by Financial Intermediaries Except Insurance Companies	7,818,000	1.46
Expense of Handling Life Insurance	5,170,000	0.96
Legal Services	2,590,000	0.48
Private Education and Research	5,585,000	1.04
Interest Paid by Consumers	11,300,000	2.11

Source: Survey of Current Business, July 1966, Vol. 46, No. 7.

Table 68

Estimated Consumption Expenditures for Selected Services and Interest Paid on Consumer Debt in Oklahoma, 1965

Service Group	Estimated Percentage of Personal Income	Estimated Expenditures
Physicians, Dentists, Other Professional Services	2.22%	$125,542,075
Privately Controlled Hospitals and Sanitariums, Medical Care, and Hospitalization Insurance	1.94	109,707,000
Brokerage Charges and Interest and Investment Counseling	0.39	22,054,500
Bank Service Charges, Trust Services, and Safe-Deposit Box Rental	0.26	14,703,000
Services Furnished Without Payment by Financial Intermediaries Except Insurance Companies	1,46	82,563,000
Expense of Handling Life Insurance	0.96	54,288,000
Legal Services	0.48	27,144,000
Private Education and Research	1.04	58,812,000
Interest Paid by Consumers	2.11	119,813,575

Source: Table 67 and the Survey of Current Business, June 1966.

Estimated Expenditures calculated by applying percentage to 1965 Oklahoma personal Income.

Table 69

Estimated Potential Sales Tax Revenue for Oklahoma by Taxing Selected Service Expenditures and Interest Paid on Consumer Debt, 1965

Service Group	Estimated Expenditure	Potential Sales Tax Revenue	
		2 Per Cent	3 Per Cent
Physicians, Dentists, Other Professional Services	$125,542,075	$ 2,510,842	$ 3,766,262
Privately Controlled Hospitals and Sanitariums, Medical Care, and Hospitalization Insurance	109,707,000	2,194,140	3,291,210
Brokerage Charges and Interest and Investment Counseling	22,054,500	441,090	661,635
Bank Service Charges, Trust Services, and Safe-Deposit Box Rental	14,703,000	294,060	441,090
Services Furnished Without Payment by Financial Intermediaries Except Insurance Companies	82,563,000	1,651,260	2,476,890
Expense of Handling Life Insurance	34,288,000	1,085,760	1,628,640
Legal Services	27,144,000	542,880	814,320
Private Education and Research	58,812,000	1,176,240	1,764,360
Interest Paid by Consumers	119,320,500	2,386,410	3,579,615
Total Potential Sales Tax Revenue		$12,282,682	$18,424,022

Source: Table 68.

tax, it was assumed that such service was taxable and no estimate of total potential revenue under a 2 per cent rate was made. For this reason, it may be that the resulting estimate of potential revenue from taxing the sales of these services is less than the "true" potential revenue. An estimate was made of the potential increase in revenue for the already taxed services, given an increase in the sales tax rate from 2 per cent to 3 per cent. For the other services, now exempt under the Oklahoma Sales Tax Act, the potential 1963 sales tax revenue was estimated for rates of both 2 per cent and 3 per cent, with the reported receipts assumed to be the slaes tax base.

If the sales of the services listed in Table 66 had been taxed in 1963 at a rate of 2 per cent, an additional $5,288,250 in revenue would have been collected by the State of Oklahoma. Sales of services by laundries and like businesses, and by auto repair shops, as well as miscellaneous repair shops and other miscellaneous business services were particularly important potential producers of sales tax revenue.

If the tax rate of 3 per cent had been applied to the sales of the above mentioned services in 1963, total sales tax revenue for that year would have been $9,286,260 greater. More than one million dollars of this potential revenue increase would have been generated by the higher tax on those services already subject to the sales tax. This latter sum would have been included in the potential revenue increase estimated earlier in this chapter in the section relating to the possibility of increasing the sales tax rate. Therefore, if the tax rate was raised to 3 per cent, the taxation of services now exempt would provide an estimated $8,098,875 from those services listed in the Census of Business.

As previously noted, a number of services were not included in the Census of Business, Selected Services. Eight groups of services not included in the Census of Business were included in the study by the Ohio Tax Study Committee, and estimates of the expenditures in Oklahoma in 1965 were made for these groups of services in a fashion similar to that used to estimate the expenditures for those services in Ohio. In addition to estimating the expenditures for the eight groups of services, the interest on consumer debt paid in Oklahoma was estimated. Potential sales tax revenue was then estimated by applying the sales tax rate to the estimated expenditures for the eight groups of services and interest on consumer debt.

The estimates of Oklahoma expenditures in 1965 for the eight groups of services and interest on consumer debt were made by first calculating the ratio of national expenditures for these services (and interest) to aggregate personal income in 1965, then applying those ratios to Oklahoma's total personal income in 1965 (see Tables 67 and 68). The figures obtained in this manner were then assumed to be approximations of the expenditures for these services and interest on consumer debt in Oklahoma during 1965. The estimated expenditures for the eight groups of services and interest on consumer debt for Oklahoma appear in Table 69. The total expenditures for the services was estimated to be $494,813,575, and the interest paid by consumers in Oklahoma was about $119,320,500.

The effect on sales tax revenue in 1965 of subjecting the eight service groups to the sales tax would have been an additional $9,896,272 if taxed at a 2 per cent rate, or $14,844,407 if taxed at

a rate of 3 per cent. Taxation of medical services and hospital services each would have provided over two million dollars in sales tax revenue. The taxation of interest paid by consumers would have produced $2,386,410 if the rate of taxation was two per cent, or $3,579,615 if taxed at a three per cent rate. The estimated potential revenue for Oklahoma of taxing the expenditures for the eight service groups and interest on consumer debt was $12,282,682 if the rate was 2 per cent, or $18,424,022 if taxed at a rate of 3 per cent.

Summary

The potential increase in sales tax revenue for Oklahoma in 1965 was estimated based on the assumption of increasing the rates of taxation to 3 per cent and 4 per cent. The potential increase in revenue corresponding to a 3 per cent rate was $33,090,711, while a 4 per cent rate would have increased 1965 revenue by $66,181,222, with no change in the present tax base. An increase in the use tax rate to 3 per cent in 1965 would have increased use tax revenue by an estimated $1,508,627, and an increase to a 4 per cent rate would have added $3,016,254 to use tax collections.

The potential increase in sales tax revenue would have been reduced by at least $7,419,562 if the city sales tax of one cent was made deductible as the state sales tax rate was raised. The potential increase in sales tax revenue, given a rate increase and the exemption of food sales, for a 3 per cent rate, was estimated to be $18,737,278, and $41,198,184 for a rate of 4 per cent. The potential revenue increase would have been reduced by $6,245,759 under a 3 per cent rate,

or by $12,491,519 under a 4 per cent rate, if the present rate of 2 per cent was maintained on the sales of food to be consumed off the premises.

If the sales of cigarettes, beer, gasoline, and motor vehicles had been subjected to the sales tax in 1965, Oklahoma would have realized a gain in revenue amounting to about $21,197,590 under a 2 per cent rate or $31,796,384 under a 3 per cent rate. The taxation of those services in the Census of Business, Selected Services (not presently being taxed) would have produced an additional $5,288,250 if taxed at a 2 per cent rate in 1963, or an additional $8,098,875 if taxed at a rate of 3 per cent. The taxation of a number of selected services not included in the Census of Business--Selected Services and interest paid on consumer debt in 1965 would have produced an estimated increase of $12,282,682 if taxed at 2 per cent, or $18,424,022, if t taxed at a 3 per cent rate. Clearly, the state could significantly increase sales tax revenue by taxing more services than currently are being taxed.

CHAPTER VI

POTENTIAL INCREASE IN SEVERANCE OR GROSS PRODUCTION TAX REVENUE

Severance taxes are defined in the Compendium of State Government Finances as "taxes imposed distinctly on removal of natural products removed or sold."[1] Another source defines a severance tax as a "special gross receipts or gross production tax levied upon the extraction of natural resources."[2] In 1965, 29 states received revenues from severance or gross production taxes, although the sums received by several states were minimal.[3]

Severance Tax Revenue for Regional States

All eight of the regional states were included among the 29 states receiving severance tax revenue in 1965. With reference to Table 70, Texas and Louisiana each received amounts of severance tax revenue greatly exceeding amounts received by any of the other six regional states. Texas in 1965 obtained $202,285,000 from a severance tax,

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[1]U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1965, p. 59.

[2]Bernard P. Herber, Modern Public Finance (Homewood, Illinois: Richard D. Irwin, Inc., 1967), p. 308.

[3]Compendium of State Government Finances in 1965.

Table 70

Severance Tax Revenue by Total Amount, Per Capita Amount, and as a Percentage of Total Tax Revenue for Oklahoma and Regional States, 1965

State	Total Severance Tax Revenue (1965)[a] (thousands of dollars)	Per Capita 1965 Severance Tax Revenue[b] (dollars)	Severance Tax Revenue As Percentage of Total[c] (percentages)
Arkansas	$ 4,614	$ 2.38	2.1%
Colorado	1,250	0.65	0.5
Kansas	530	0.22	----
Louisiana	179,085	51.36	30.8
Missouri	30	-----	-----
New Mexico	27,637	27.28	14.7
Oklahoma	38,483	15.68	10.8
Texas	202,285	19.47	17.0

Source: [a]Compendium of State Government Finances in 1965, Table 7, p.21.

[b]Estimated by dividing total severance tax revenue by population of the respective State.

[c]Calculated by dividing severance tax revenue by total state tax revenue for each state.

and Louisiana's severance tax produced $179,085,000 in 1965. In contrast, third-ranked Oklahoma received $38,483,000 in severance tax revenue, and fourth-ranked New Mexico collected $27,637,000 from a severance tax during the same year. When compared with the amounts of severance tax revenue received by the above mentioned states, the amounts received by the other four regional states--Arkansas, Colorado, Kansas, and Missouri--were quite small.

On a per capita basis, severance tax revenue amounted to $51.36 per person in Louisiana, $27.28 per person in New Mexico, $19.47 per person in Texas, and $15.68 per person in Oklahoma. It should be noted that although Oklahoma's total severance tax revenue in 1965 was third largest in the group of regional states, on a per capita basis it was fourth highest, and lowest among the four states receiving significant amounts of severance tax revenue.

Severance tax revenue as a percentage of total state tax revenue, which indicates the relative importance of the tax in the state tax structure had a distribution somewhat different from the per capita revenue, but Oklahoma, with a percentage figure of 10.8, again ranked fourth within the group. In this category Louisiana was highest, with 30.8 per cent of that state's total 1965 state tax revenue produced by the severance or gross production tax. Texas received 17.0 per cent of the total state tax revenue from the severance tax, and New Mexico's severance tax produced 14.7 per cent of total state tax revenue.

In view of the fact that on a per capita and percentage of total tax revenue basis Oklahoma ranked lowest among the four regional states depending rather heavily upon the severance tax for revenue, the

objective of this chapter is to examine the possibility of improving the relative importance of the severance tax in Oklahoma through selected changes in the tax, and to estimate the potential increase in revenue which would be expected from these changes in the tax.

In Oklahoma the type of taxes generally referred to as "severance" taxes comes under the official name "gross production" tax. To illustrate the relative importance of the revenue from the Oklahoma gross production tax, the following data, taken from the Seventeenth Biennial Report of the Oklahoma Tax Commission, establish the percentage distribution of the tax collections by that agency from the five major groups of taxes.

Table 71

Major Sources of Tax Collections by the Oklahoma Tax Commission, 1965-66, by Tax Group, as a Percentage Distribution

Type of Tax or Taxes	Tax Revenue as Percentage of the Total 1965-66 Tax Collections
Taxes levied on gasoline and motor fuels	20.05%
Sales and Use Taxes	20.91
License Fees and Other Motor Vehicle Taxes	16.43
Income Tax (Personal and Corporate)	15.49
Gross Production Tax	10.55

Source: Oklahoma Tax Commission, Seventeenth Biennial Report, July 1, 1964-June 30, 1966, p. 13.

Gross production tax collections as a percentage of total tax collections by the Oklahoma Tax Commission in 1965-1966 constituted 10.55 per cent of the total collections, and produced the fifth largest portion of the total collections.

The relative importance of the gross production tax revenue in Oklahoma has been declining in recent years (see Table 72). Gross production tax collections as a percentage of total tax collections by the Oklahoma Tax Commission dropped from 12.40 per cent in 1961 to 10.55 per cent in 1966, despite a rise in total revenue from the gross production tax from $33,374,253 in 1961 to $39,213,525 in 1966. Most of the increase in gross production tax collections occurred in 1964 and in 1966. During the time period under consideration (1961-1966) gross production tax revenue rose by 17.5 per cent, but total tax collections increased by 38.0 per cent.

Oklahoma's Gross Production Tax

The state of Oklahoma levies a gross production tax of 0.75 per cent of the gross value of asphalt, ores bearing lead, zinc, jack, gold, silver, and copper produced in the state during the taxable year. A gross production tax of 5.0 per cent of the gross value of the production of petroleum or other crude or mineral oil, natural gas, casinghead gas, and uranium produced in the state during the taxable year is levied. On crude oil, natural gas, or casinghead gas, the tax is paid by the purchaser, who may in turn deduct the tax from the purchase price. In other cases, the producer pays the tax.

The tax is in lieu of property taxes on certain property and

Table 72

Gross Production Tax Revenue in Oklahoma as a Percentage of Total Tax Collections by the Oklahoma Tax Commission, 1961-1966

Year	Amount of Gross Production Tax Revenue	Gross Production Tax Revenue as a Percentage of Total Tax Collections
1961	$33,374,253	12.40%
1962	33,856,312	11.47
1963	34,998,939	11.32
1964	37,286,837	11.47
1965	37,794,416	11.16
1966	39,213,525	10.59

Source: Fifteenth, Sixteenth, and Seventeenth Biennial Reports of the Oklahoma Tax Commission.

property rights connected with the production of the above enumerated minerals. However, certain property is still subject to property taxation as well as to the gross production tax. The revenue from the tax is shared by the state and local governments. The state General Fund received 78 per cent of the revenue, with another 2 per cent being allocated to the Oklahoma Tax Commission Fund. County Highway Funds receive 10 per cent of the revenue, as do also school districts maintaining 12 grades and levying 15 mills ad valorem. For the local governments, their percentages are based upon the value of the minerals produced in the respective county.

Persons engaged in operating refineries or processing plants of crude oil, mineral oil, or casinghead gas, must obtain a permit in the form of a license. Application for this permit must be made to the Oklahoma Tax Commission. The Commission may require a bond before issuing the permit, to indemnify the state against loss for nonpayment of the gross production tax.

Monthly reports are required from producers of petroleum and minerals subject to the tax, as well as purchasers and storers of crude petroleum and refiners. Railroads, pipelines, and transportation companies are reuired to furnish the Tax Commission, upon request, reports of shipments of crude oil and other data. Transporters, other than railroad and pipeline companies, must get a license from the Tax Commission and file a bond. Records of each load must be kept. Failure to keep such records results in the seizure of trucks and the products being transported.

Payment is made to the Oklahoma Tax Commission at the time of

filing monthly reports. If oil or gas is sold at the time of production, the tax is paid by the purchaser who is authorized to deduct the amount so paid in making settlements with the producer and/or royalty owner. If the oil is not sold at the time of production, the tax is paid by the producer, including the amount due on royalty gas not sold.

The State Board of Equalization, upon its own initiative or upon the complaint of a producer that he is being taxed at too great a rate, may take testimony to determine whether the gross production tax is greater or less than the general ad valorem tax for all purposes would be on property of such producer, and may raise or lower the rate imposed to conform to the decision of the Board.

A tax of 12½ per cent is levied on the gross value of all crude oil or mineral oil reported to the Tax Commission as recovered from streams, lakes, ponds, revines, and other natural depressions to which oils have escaped. A similar rate is imposed on the value of crude oil or other mineral oil which is reported to the Tax Commission, and the actual source is not disclosed. The proceeds of the tax are held by the Tax Commission in its Depository Account with the State Treasury for a period of twelve months, during which time the rightful owners of the royalty, upon presentation of proof of ownership, will be paid their proper interest. If no owners come forth to present a claim within the twelve months, such proceeds are distributed in the same fashion as the gross production taxes.

Gross Production Tax Rates in Regional States

As mentioned above, Oklahoma levies a gross production tax of 5

per cent of the total value of crude petroleum, natural gases, and casinghead gas produced in the state during the taxable year. How does that rate compare with the rates imposed by the states in Oklahoma's region?

In Texas, an occupation tax of 4.6 cents per barrel of 42 standard gallons is levied on oil, except when the market value of oil rises above $1 per barrel. In that case, the tax becomes 4.6 per cent of the market value of the oil produced. If the market value of the crude oil drops below $1 per barrel the rate of taxation rises above 4.6 per cent, but the rate can not go lower than 4.6 per cent. In addition to the gross receipts production tax or occupation tax, producers of crude petroleum are required to pay a tax on crude petroleum produced in Texas of 3/16 of one cent per barrel. The rate of taxation on natural gas produced in Texas is 7 per cent of market value.

In Louisiana, crude oil is taxed at rates ranging from 18¢ per barrel to 26¢ per barrel depending upon the gravity of the oil. Natural gas is taxed at the rate of 2.3¢ per thousand cubic feet produced. Arkansas levies a tax of 3/10 of 1 cent per 1,000 cubic feet of natural gas, and taxes crude oil production at a rate of 5 per cent of market value. New Mexico levies a tax of 2.5 per cent on the value of both oil and natural gas produced. Kansas rates are very low in comparison--1/10 of 1 cent per barrel of oil, and 5/100 of 1 cent per thousand cubic feet of natural gas. Missouri's taxes on crude oil and natural gas production are also quite low.

Potential Increase in Oklahoma's Gross Production Tax Revenue

The objective of this section of the study is to suggest possible changes in the gross production tax in Oklahoma designed to increase the yield of that tax, and to estimate the magnitude of the potential increase in revenue such changes would be expected to bring forth. Of necessity, the assumed revisions in the tax will deal primarily with changes in the rates of taxation, as the possibility of broadening the tax base is rather limited inasmuch as there are no exemptions to be eliminated, and the base of the tax, being the value or quantity of taxable resources, cannot be readily or easily manipulated for revenue purposes as the base is limited by total current mineral production and the market value of such production.

As noted in Table 73, the total value of all minerals produced in Oklahoma in 1965 amounted to $907,914,000. Natural gas production and crude petroleum production accounted for 20.1 per cent and 67.8 per cent, respectively, of this value, or 87.9 per cent jointly. In an attempt to estimate the potential increase in gross production tax revenue, attention will be focused primarily on the gross production tax on these two minerals due to their dominance in mineral production in Oklahoma. However, the possibility of increasing the gross production tax revenue from other minerals will not be overlooked, including the possibility of adding several minerals to the tax base that are presently excluded.

Potential increases in gross production tax revenue were estimated for two different years in Oklahoma, 1965 and 1966, using different

Table 73

Quantity, Value, and Percentage of Total Value of Selected Mineral Production in Oklahoma of Selected Minerals, 1965

Mineral	Quantity	Value	Value as Percent of Total Value of Production
Lead (short tons)	2,813	$ 878,000	less than 0.01%
Natural Gas (million cubic feet)	1,320,995	182,297,000	20.1%
Natural Gas Liquids			
Natural gasoline-cycle products (thousands gallons)	570,229	34,561,000	3.8
LP gases (thousand gallons)	894,665	32,208,000	3.54
Petroleum (thousand 42-gallon barrels)	203,441	587,944,000	67.8
Coal (thousand short tons)	974	5,520,000	0.6
Gypsum (thousand short tons)	761	2,343,000	0.3
Zinc (short tons)	12,715	3,713,000	0.4
Total Value of All Minerals Produced in Oklahoma in 1965		$907, 914,000	

Source: U. S. Department of the Interior, Bureau of Mines, 1965 Minerals Yearbook, Vol. III, Area Reports: Domestic, p. 641.

sources of data regarding the quantity and value of mineral production. The suggested changes in the tax for 1965 included: 1) taxing zinc and lead production at a rate of 5 per cent, as oil and gas is presently taxed, plus including coal, natural gas liquids, and gypsum production to this tax at the 5 per cent rate; 2) adoption of the Texas rate of 7 per cent on natural gas and applying this rate to crude oil production and natural gas liquids production; and 3) adoption of the Louisiana rates on oil and gas (maximum rate in the case of crude oil). The suggested changes involved in estimating the potential increase in 1966 gross production tax revenue included only the latter two. The source of the data for 1965 was the Bureau of Mines 1965 Mineral Yearbook, and data for 1966 was released to this author by the Gross Production Tax Division of the Oklahoma Tax Commission.

Potential Increase in 1965 Gross Production Tax Revenue

According to the figure published by the Oklahoma Tax Commission, the gross production tax collections in 1965 amount to $37,894,416.[4] The revenue generated by taxing not only crude petroleum and natural gas production at 5 per cent of value, but also applying that rate to the other taxable resources (lead and zinc), and adding the production of natural gas liquids (natural gasoline and LP gases), coal, and gypsum to the list of taxable resources was estimated (see Table 74).

The potential revenue effect of including coal and gypsum production in the list of resources subject to the gross production tax was

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[4]Oklahoma Tax Commission, Seventeenth Biennial Report.

Table 74

Estimated Gross Production Tax Revenue in Oklahoma in 1965 Based on the Value of Mineral Production as Reported by the 1965 Minerals Yearbook and Tax Rate of 5 Per Cent of Market Value

Mineral	Value of 1965 Production[a]	Estimated Revenue if Taxed at a Rate of 5 Per Cent of Production Value[b]
Crude Petroleum	$587,944,000	$29,397,200
Natural Gas	182,297,000	9,114,850
Natural Gas Liquids	66,769,000	3,339,450
Lead	878,000	43,900
Coal	5,520,000	276,000
Gypsum	2,343,000	117,150
Zinc	3,713,000	185,650
Total Estimated Revenue:		$42,484,200

Source: [a]Table 73.

[b]The rate 5 per cent applied to the 1965 value of the mineral produced.

quite small. Revenue from coal production in 1965 was estimated to be about $276,000, and revenue from taxing gypsum productions was $117,150. Subjecting natural gas liquids to the 5 per cent gross production tax would have added a fairly substantial sum--$3,339,450--to gross production tax revenue in 1965. If all resources listed in Table 73 were taxed at a rate of 5 per cent of market value, total gross production tax revenue in 1965 would have been about $42,484,200, representing an increase of $4,689,748.

The validity of this estimate of potential increase from taxing the above enumerated minerals at a rate of 5 per cent of market value may be questioned due to the fact that the estimated revenue based upon a 6 per cent rate applied to the value of crude oil and natural gas for 1965 somewhat exceeded the amount of gross production tax revenue reported by the Tax Commission for 1965 in its biennial report. However, the validity of the estimate for 1965 is re-enforced by the fact that the 1966 amount of gross production tax revenue reported in the Seventeenth Biennial Report was $39,213,525, while in February 1968, the Gross Production Tax Division of the Tax Commission reported 1966 collections as totaling $41,062,229, apparently due to belated collections.

As an alternative measure designed to increase gross production tax revenue, the potential increase in such revenue for 1965 was estimated based on the assumption that crude petroleum and natural gas was taxed at a rate of 7 per cent, which is the rate imposed by Texas on the production of natural gas. In this case, natural gas liquids were also assumed to be taxable at 7 per cent of market value. The total estimated revenue from taxing crude petroleum and natural gas in 1965 at a

Table 75

Estimated 1965 Gross Production Tax Revenue from Crude Petroleum, Natural Gas, and Natural Gas Liquids, at Rates of 5 Per Cent and 7 Per Cent

Mineral	Market Value in 1965[a]	Estimated Revenue at 5 Per Cent Rate[b]	Estimated Revenue at 7 Per Cent Rate[c]	Potential Increase[d]
Crude Petroleum	$587,944,000	$29,397,000	$41,156,080	$11,759,080
Natural Gas	182,297,000	9,114,850	12,760,790	3,645,940
Natural Gas Liquids	66,769,000		4,673,830	4,673,830
Total Revenue:		$38,511,850	$58,590,700	$20,028,850

Source: [a]Table 73.

[b]Table 74.

[c]7 per cent of the market value of the mineral produced in 1965.

[d]Estimated Revenue at 7 per cent rate minus estimated revenue at 5 per cent rate.

rate of 5 per cent, amounted to $38,511,850. Estimated potential revenue for that year, at a rate of 7 per cent and with the inclusion of natural gas liquids into the tax base, amounted to $58,590,700. This measure offered a potential increase in 1965 revenue of $20,028,850 (see Table 75).

As a third possible measure, the potential increase in 1965 gross production tax revenue was estimated based upon the assumption that crude petroleum and natural gas production in Oklahoma was subject to the Louisiana rates of 26 cents per barrel on crude petroleum (the maximum rate) and 2.3 cents per thousand cubic feet on natural gas (see Table 76).

With the application of these rates in Oklahoma to the 1965 data on quantities of natural gas and crude petroleum produced, the total revenue in 1965 was estimated at $52,894,660 from crude oil production, and $23,151,719 from the production of natural gas. Total expected gross production tax revenue in 1965 from these two minerals under the assumed rates amounted to $76,056,379, which represented an increase of $37,544,529 over the revenue generated by a tax of 5 per cent of value.

Potential Increase in 1966 Gross Production Tax Revenue

The potential increase in gross production tax revenue from crude petroleum and natural gas was estimated for two separate years--1965 and 1966--due to the availability of two sources of data concerning output and value of crude oil and natural gas for the two years. The estimates for 1965 were based upon 1965 mineral production data for Oklahoma published in the 1965 Minerals Yearbook by the Bureau of Mines,

Table 76

Expected Increase in 1965 Oklahoma Gross Production Tax Revenue with Application of Louisiana's Rates for Crude Petroleum and Natural Gas

Mineral	Quantity Produced in 1965[a]	Tax Rate[b]	Expected Revenue[c]
Crude Petroleum	203,441,000 barrels	26 cents per barrel	$52,894,660
Natural Gas	1,320,995,000 thousand cubic feet	2.3 cents per thousand cubic feet	23,151,719
Total Expected Revenue:			$76,056,379

Source: [a]Table 73.

[b]Prentice-Hall Tax Guide: State and Local Taxes in Louisiana.

[c]Tax rate times the quantity of mineral produced in 1965.

Table 77

Estimated Increase in 1966 Gross Production Tax Revenue by Applying a Tax Rate of 7 Per Cent to the Value of Crude Petroleum, Natural Gas, and Casinghead Gas in Oklahoma

Mineral	1966 Market Value of Production[a]	Estimated Revenue if Taxed at a Rate of 7 Per Cent of Value
Crude Petroleum	$631,098,183	$44,176,873
Natural Gas	150,664,497	10,546,515
Casinghead Gas	39,481,918	2,763,734
Total Expected Revenue:		$57,487,122
Actual Revenue:		41,062,229
Expected Increase in Revenue:		$16,424,893

Source: [a]Oklahoma Tax Commission, Gross Production Tax Division (unpublished data).

Table 78

Expected Increase in Gross Production Tax Revenue in Oklahoma, 1966, with Application of Louisiana Rates on Crude Oil, Natural Gas, and Casinghead Gas

Mineral	Quantity Produced in 1966[a]	Tax Rate	Expected Revenue
Crude Petroleum	222,306,613 barrels	26 cents per barrel	$58,799,719
Natural Gas	974,318,543 million cubic feet	2.3 cents per thousand cubic feet	22,409,326
Casinghead Gas	364,072,367 (million cubic feet)	2.3 cents per thousand cubuc feet	8,373,664
Actual Total Revenue: $41,062,229		Total Expected Revenue: $88,582,709	
Expected Increase in 1966 Gross Production Revenue: $47,520, 480			

Source: [a]Oklahoma Tax Commission, Gross Production Tax Division.

while the following estimates for 1966 were based upon production and value data supplied by the Gross Production Tax Division of the Oklahoma Tax Commission. One difference in reporting existed between the two agencies. The Bureau of Mines includes casinghead gas[5] under the production of natural gas, whereas the Oklahoma Tax Commission makes a distinction between the two gases. However, this difference is easily reconciled and does not create a problem in estimating potential revenue for 1966.

If Oklahoma's crude petroleum and natural gas production in 1966 had been taxed at a rate of 7 per cent of value, the total expected revenue for that year would have been $57,487,122, an increase of $16,424,893 over the actual revenue. This increase is not much greater than that estimated for 1965 under the same assumptions (see Table 77).

Oklahoma's 1966 gross production tax revenue would have been increased by an estimated $47,520,480 had natural gas (including casinghead gas) and crude petroleum in Oklahoma been taxed at the Louisiana rates of 26 cents per barrel of crude petroleum and 2.3 cents per thousand feet of natural gas. This sum is approximately $10 million larger than the estimated amount of increase for 1965, due to greater production of crude petroleum in 1966 than in 1965 (see Table 79).

Future Prospects for Gross Production Tax Revenue in Oklahoma

One problem involved with relying on the revenue from a severance tax is created by fluctuations in the demand (thus in the price and

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[5]Casinghead gas is gas produced from oil wells.

quantity) for the resource being subjected to the tax. If the demand for the resource remains constant (assuming no change in supply) the price and output will not vary; thus value remains constant, giving rise to a constant amount of severance tax revenue. Factors contributing to a fall in market demand for taxable resources, thus lower prices and smaller outputs, also lead to a fall in gross production tax revenue through diminishing the tax base, either the total value or total quantity of the resource produced. This is based upon the assumption that the supply remains constant. If new discoveries are not forthcoming, however, the known deposits of the taxable resources will eventually be used up, and the tax base will disappear.

A number of variables affect the gross production tax revenue. Perhaps this tax is rather unique in that as revenues are generated, the source of the revenue is being eliminated, barring the possibility of new discoveries. On the demand side, market conditions can create a good bit of uncertainty as to the amount of revenue that will be forthcoming. An example of these market conditions can be found in the following quote from the biennial report of the Oklahoma Tax Commission by the Gross Production Tax Division.

> ...although we have had a depressed market, unstable prices, reduced drilling activities, reduced allowable, and Federal Power Commission control of gas rates, through recodification of the law and increased efforts of the Division personnel, we have shown a healthy increase in tax collection...[6]

On the supply side, the inherent problem of relying upon a gross production or severance tax is the possibility of exhausting the re-

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[6]Seventeenth Biennial Report of the Oklahoma Tax Commission, p. 107.

serves of natural resources, thus exhausting the tax base. Any recommendation for intensifying the use of a gross production tax should at least give a brief amount of consideration to the proved recoverable reserves of such resources, and an estimation as to the number of years such reserves would be expected to last barring additional discoveries, at production levels approximating current levels.

According to the 1965 Minerals Yearbook (see Table 79), estimated proved recoverable reserves in Oklahoma were 1,517,490,000 barrels of curde petroleum, 20,357,414 million cubic feet of natural gas, and 358,297,000 barrels of natural gas liquids. Based upon continued production at the levels for 1965 (see Tables 80, 81, and 82), the estimated number of years these reserves can be expected to last are presented in Table 83. Crude petroleum reserves would be exhausted in about 7-8 years; natural gas reserves would last for about 15 years; and natural gas liquids reserves would be depleted in 10-11 years.

The possibility of maintaining or even expanding the reserves of natural resources is a real one, however. Average annual additions to the reserves of crude petroleum in Oklahoma during the period 1961-1965 was 114,570,000 barrels, slightly more than 50 per cent of the 1965 level of production. Natural gas reserves in Oklahoma increased through new discoveries and extensions by an average of 1,763,436 million cubic feet per year. The reserves of natural gas liquids rose by an average of 31,212,000 barrels per year. Increases in the reserves of both natural gas and natural gas liquids closely approximated the amounts of these minerals being depleted during the period 1961-1965. Should

Table 79

Estimated Proved Recoverable Reserves of Crude Petroleum, Natural Gas, and Natural Gas Liquids, 1965, for Oklahoma

Mineral	1965 Reserves
Crude Petroleum (thousand 42-gallon barrels)	1,517,490
Natural Gas (million cubic feet)	20,357,414
Natural Gas Liquids (thousand 42-gallon barrels)	358,297

Source: U. S. Department of the Interior, Bureau of Mines, 1965 Minerals Yearbook, Vol. III, Area Reports: Domestic, Table 6, p. 645.

Table 80

Marketed Production of Natural Gas in Oklahoma, Annually, 1961-1965

Year	Quantity (million cubic feet)	Value (thousands of dollars)
1956-60 (average)	746,135	$ 72,723
1961	892,697	108,016
1962	1,060,717	135,772
1963	1,233,883	160,405
1964	1,316,201	166,747
1965	1,320,995	182,297

Source: U. S. Department of the Interior, Bureau of Mines, 1965 Minerals Yearbook, Vol. III, Area Reports: Domestic, Table 5, p. 645.

Table 81

Natural Gas Liquids Production in Oklahoma, Annually, 1961-1965

Year	Quantity (thousand gallons)	Value (thousands of dollars)
1956-60 (average)	1,126,647	$54,194
1961	1,338,319	63,499
1962	1,391,698	60,987
1963	1,366,361	64,112
1964	1,434,857	62,066
1964	1,464,794	66,769

Source: U. S. Department of the Interior, Bureau of Mines, 1965 Minerals Yearbook, Vol. III, Area Reports: Domestic, Table 7, p. 646.

Table 82

Crude Petroleum Production in Oklahoma, Annually, 1961-1965

Year	Quantity (thousand barrels)	Value (thousands of dollars)
1956-60	204,445	$597,263
1961	193,081	561,866
1962	202,732	591,977
1963	201,962	587,709
1964	202,524	587,320
1965	203,441	587,949

Source: U. S. Department of the Interior, Bureau of Mines, 1965 Minerals Yearbook, Vol. III, Area Reports: Domestic, Table 8, p. 646.

Table 83

Number of Years 1965 Oklahoma Reserves of Crude Petroleum, Natural Gas, and Natural Gas Liquids Will Last if Production Occurs at 1965 Level

Mineral	Proved Recoverable Reserves	Produced in 1965	Years Reserves Will Last
Crude Petroleum	1,517,490,000 barrels	203,441,000 barrels	7-8 years
Natural Gas	20,357,414 million cubic feet	1,320,995 million cubic feet	15 years
Natural Gas Liquids	15,048,474 gallons	1,464,794 gallons	10-11 years

Source: Calculated by the author from data in Tables 79-82.

Table 84

Annual Increases in Reserves of Crude Petroleum, Natural Gas, and Natural Gas Liquids in Oklahoma Due to New Discoveries and Extensions, 1961-1965

Mineral	1965	1964	1963	1962	1961	Average Annual Increase
Crude Petroleum	137,888	156,626	994,367	137,084	184,774	142,148
Natural Gas (million cubic feet)	1,899,009	1,825,894	2,002,995	2,030,179	1,059,103	1,763,436
Natural Gas Liquids	47,423	43,756	6,962	40,197	17,716	31,212

Source: Bureau of Mines, Minerals Yearbooks (1961-1965).

these discoveries tend to be forthcoming in the future at levels sustained during the recent years, the reserves of resources will be sustained for some time, withstanding significant increases in the levels of production.

Summary

Oklahoma was one of four regional states in 1965 receiving significant amounts of revenue from a severance or gross production tax. The per capita severance tax revenue in 1965 for Oklahoma amounted to $15.68 per person, and the severance tax revenue as a percentage of Oklahoma's total tax revenue amounted to 10.8 per cent. In terms of these two measurements, Oklahoma ranked fourth highest in the group of regional states, but was lower than the other three states levying fairly substantial severance taxes.

Oklahoma's 1965 gross production tax revenue would have been increased by $4,689,748 if coal, gypsum, and natural gas liquids had been added to the list of taxable resources, and all taxable resources had been subjected to a rate of 5 per cent of value. Most of the increase was accounted for by the inclusion of natural gas liquids. For the same year, gross production tax revenue would have been increased by $20,028,850 had natural gas liquids been added to the tax base, and together with crude petroleum and natural gas, been taxed at a rate of 7 per cent of value. If Louisiana's rates on natural gas and crude petroleum had been applied to Oklahoma's production of these two minerals in 1965, the gross production tax revenue would have been $37,544,529 higher.

An additional $16,424,893 would had been forthcoming in 1966 if a rate of 7 per cent, rather than 5 per cent, had been applied to the value of crude oil and natural gas (including cashinghead gas) in Oklahoma. For that same year, the application of Louisiana's rates on crude petroleum and natural gas to Oklahoma's production of these two minerals would have produced an additional $47,520,480 above actual collections.

CHAPTER VII

POTENTIAL INCREASE IN PROPERTY TAX REVENUE

Initially the scope of this study was confined to analyzing selected possible methods or proposals by which several sources of tax revenue for the state of Oklahoma could be made more productive. To this extent, the inclusion of an analysis of the productivity of the property tax in Oklahoma would appear inappropriate, since Oklahoma is one of six states in the nation not receiving any revenue from the taxation of property, either real or personal. Article 10, Section 9, of the Oklahoma Constitution prohibits the levying of a tax on property for state purposes or uses. Property tax revenue in Oklahoma is solely the domain of local units of government.

The objective of this section of the study is to estimate the potential increase in property tax revenue in Oklahoma, given certain selected revisions in the tax. Justification for the inclusion of such an analysis of the property tax in this study rests upon the fact that local governmental units in Oklahoma are recipients of rather large amounts of intergovernmental expenditures by the Oklahoma state government, and that the property tax in the revenue structures of the local governments is of great importance. An increase in the property tax

yield would possibly enable the local governments to become more self-sufficient and less dependent upon state funds to supplement local revenue. To that extent, the state expenditures to local governments could then be reduced, thus allowing those funds to be allocated to state governmental functions in need of additional funds.

Sources of Local Government Revenue in Oklahoma

Local governments in Oklahoma derive a large part of their revenues from the state government. In 1962, total local government revenue in Oklahoma amounted to $400 million, with only $268 million originating from purely local revenue sources (see Table 85). Total tax revenue for local governments amounted to $150 million, with revenue from the property tax accounting for $143 million of this amount. Total revenue received by the local governments in Oklahoma from the state government in 1962 amounted to $119 million. These figures establish statistical evidence of the extent of dependency by the local governments upon the property tax as the major source of tax revenue, and upon the state goverment for supplemental funds of significant amounts.

Percentagewise, Oklahoma local governments in 1962 obtained only 67.0 per cent of total revenue from their own sources of revenue, 29.8 per cent from the state, with the rest contributed by the federal government. In comparison with the other regional states, with respect to percentage distribution of local revenues by source, Oklahoma was not significantly out-of-line with Arkansas or Colorado, but was considerably below Kansas and Missouri and considerably above Louisiana and New Mexico. Local governments in Kansas received 77.1 per cent of revenue

Table 85

Total Local Revenue from Major Sources for Local Governments in Oklahoma and Regional States, 1962

State	Total Local Revenue	Total Revenue from Local Sources	Total Local Tax Revenue	Property Tax Revenue	Local Revenue from State
	(millions of dollars)				
Arkansas	$ 220	$ 143	$ 78	$ 72	$ 72
Colorado	518	358	241	220	146
Kansas	547	422	290	282	116
Louisiana	562	308	170	132	246
Missouri	762	611	426	343	140
New Mexico	186	94	50	37	83
Oklahoma	400	268	150	143	119
Texas	1,927	1,451	859	798	456

Source: Facts and Figures on Government Finance, 14th Ed., p. 232-233.

from local sources and 21.2 per cent from the state (see Table 86). In Missouri, local governments obtained 80.2 per cent of total revenue from local sources and only 18.4 per cent from the state government. On the other end, local governments in New Mexico received 44.6 per cent of their total revenues from the state and those in Louisiana received 43.8 per cent of total revenue from state intergovernmental expenditures.

The relative importance of tax revenue in the total revenue structure of local governments varied among the regional states. Tax revenue as a percentage of total local revenue ranged from 26.9 per cent in New Mexico to 55.9 per cent in Missouri. Kansas was also rather high in this respect with 53.9 per cent of total revenue produced by local tax sources. Local governments in Oklahoma received 37.5 per cent of total revenue from local tax sources, which was fifth highest in the group. Oklahoma was relatively less dependent upon tax revenue as a source of local government revenue than were local governments in four of the other regional states.

Property tax revenue in 1962 as a percentage of total tax revenue for the local governments in the eight regional states was greater than 90 per cent for five states, with the highest percentage--97.2 per cent--occuring in Kansas. Oklahoma, with 95.3 per cent of total local government tax revenue produced by the property tax, ranked second highest in the group of eight states. Missouri was the only state in which local governments obtained less than 70 per cent of local tax revenue from the property tax. In that state, only 45.0 per cent of total local tax revenue came from the property tax. Missouri's local governments, however, received the largest percentage of total revenue from local sources.

Table 86

Percentage Distribution of Total Local Revenue by Major Source for Local Governments in Oklahoma and Regional States, 1962

State	Percentage of Total Local Revenue from Local Sources	Percentage of Total Local Revenue from State Sources	Percentage of Total Local Revenue from Local Taxes	Percentage of Total Local Tax Revenue from Property Tax
Arkansas	65.0%	32.7%	35.4%	92.3%
Colorado	69.1	28.2	46.5	91.3
Kansas	77.1	21.2	53.0	97.2
Louisiana	54.8	43.8	30.2	77.6
Missouri	80.2	18.4	55.9	45.0
New Mexico	50.5	44.6	26.9	74.0
Oklahoma	67.0	29.8	37.5	95.3
Texas	75.3	18.7	44.6	92.9

Source: Calculated from data in Table 85.

Distribution of Intergovernmental Expenditures

State intergovernmental expenditures to local governmental units in Oklahoma constituted important sources of revenue for those governments. Data presented in Table 87 and Table 88 illustrate the distribution of these expenditures by function or type of receiving government for Oklahoma, as well as for the other seven regional states. The state government in Oklahoma allocated $145,438,000 in 1965 to local units of governments. The largest sum--$93,203,000--went to School Districts; the second largest sum--$37,078,000 went to Counties; and the third largest amount--$14,224,000--went to Municipalities. Oklahoma's 1965 gross intergovernmental expenditures to local governments was fifth highest in the group of eight states.

On a percentage distribution basis, school districts in Oklahoma received 64.1 per cent of state intergovernmental expenditures to local governments in 1965; counties received 25.5 per cent; and municipalities received 9.8 per cent. School districts received more than 90.0 per cent of state intergovernmental expenditures in both New Mexico and Texas, but less than 50 per cent in both Colorado and Kansas. Counties received as great or greater portions of state funds as did school districts in both Colorado and Kansas. State funds received by counties in the latter two states accounted for more than 40.0 per cent of total state aid to local governments. In contrast, counties in Missouri, New Mexico, and Texas received very small percentages of state aid to local governments. Municipalities in five of the eight states, including Oklahoma, received less than 10.0 per cent of the state assistance.

Table 87

Intergovernmental Expenditures by Type of Receiving Government, for Oklahoma and Regional States, 1965

State	Total Expenditures	Counties	Municipalities	School Districts	Special Districts	Other
	(thousands of dollars)					
Arkansas	$ 87,387	$15,865	$10,235	$ 61,025	$ 262	$------
Colorado	158,951	67,622	29,199	61,818	88	224
Kansas	123,754	60,313	7,728	54,294	97	257
Louisiana	305,913	23,962	23,831	217,567	3,562	36,991
Missouri	178,357	8,398	20,479	149,227	225	28
New Mexico	108,077	7,093	3,018	97,966	-----	------
Oklahoma	145,438	37,078	14,224	93,203	328	605
Texas	517,952	12,898	2,592	496,820	5,638	4

Source: Compendium of State Government Finances in 1965.

Table 88

Percentage Distribution of Intergovernmental Expenditures by Type of Receiving Government, for Oklahoma and Regional States, 1965

State	Total	Counties	Municipalities	School Districts	Special Districts	Other
Arkansas	100.0%	18.2%	11.7%	69.8%	0.3%	-----
Colorado	100.0	42.5	18.4	38.9	0.1	0.1%
Kansas	100.0	48.7	6.2	43.9	0.1	0.2
Louisiana	100.0	7.8	7.8	71.1	1.2	12.1
Missouri	100.0	4.7	11.5	83.7	0.1	----
New Mexico	100.0	5.6	2.8	90.6	---	----
Oklahoma	100.0	25.5	9.8	64.1	0.2	0.4
Texas	100.0	2.5	0.5	95.9	1.1	----

Source: Calculated from data in Table 87.

Texas allocated only 0.5 per cent of state aid to municipalities. The largest percentage of state financial assistance to municipalities in 1965 was 18.4 per cent in Colorado.

State-Support for Public Schools in Oklahoma

School districts in Oklahoma received 64.1 per cent of all intergovernmental expenditures by the state in 1965. Contributions by the state to the school districts in the state were of sufficient size to warrant a brief summary of the procedure involved in determing whether or not a school district will receive state funds, and the manner in which school districts qualify for state aid. Contributions of state funds to the school districts occur in the forms of equalization aid, basic aid, operational aid, school land earnings, vocational aid, special education, transfer fees, and free textbooks funds. Of the eight aid programs listed, the more important are the equalization aid, the basic aid and the operational aid.

Basic aid consists of the apportionment of $12.50 to each school district for each pupil in the average daily attendance records of the schools, provided the district is maintaining a high school and is levying 15 mills in ad valorem tax. Operational aid consists of the apportionment of $8.00 per pupil in average daily attendance to each school district levying 20 mills. Before discussing the equalization aid, it is necessary to introduce and define two terms: the district minimum program and the minimum program income.

The minimum program is the basic state-guaranteed educational program each school district must provide in order to receive state aid.

The minimum program income consists of the following revenues: 13.63 mills of the district ad valorem levy and 75 per cent (3 mills) of the 4 mill county levy, plus all the other local sources of revenue, plus all fees, plus the basic aid. The money received from the federal government is not chargeable to the minimum income, nor are vocational aid, operational aid, and special education aid from the state. Thus, it is possible for a district to have more income than is included in the minimum income.

In order to determine the equalization aid, the minimum program cost is subtracted from the minimum income, and the difference is the amount of equalization aid received by the school district from the state.

The Oklahoma Property Tax[1]

The Oklahoma Constitution grants the state legislature the power to determine by classification what shall be subject to the ad valorem tax. Under this power, the Legislature has declared all property in the state, both real and personal, to be subject to an ad valorem tax, unless such property is exempt, or subject to an in lieu tax. Property has been classified as either (1) real property, consisting of the land and mines, minerals, quarries, trees, buildings, and improvements, or (2) personal property, consisting of all goods, moneys, credits, and effects not coming within the definition of real property.

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[1]Unless otherwise noted, the source of information on the property tax in Oklahoma is Prentice-Hall Tax Guide: State and Local Taxes--Oklahoma.

The Oklahoma Constitution prohibits an assessment exceeding 35 per cent of the fair price of the property, estimated at the price it would bring at a fair voluntary sale. Also prohibited constitutionally is the levying of a tax on property for state purposes or uses. The assessment of the property of railroads and public service corporations is made by the State Board of Equalization, while the assessment of all other properties is made by county officials.

Exemptions

A number of exemptions to the property tax exist in Oklahoma. The more important exemptions include:

(1) property owned by the federal, state, or local governments;

(2) property of scientific and/or educational institutions;

(3) an amount equal to $2,500 is allowed scientific or educational institutions on property not used exclusively and directly for educational purposes;

(4) orphan homes, fraternal, charitable, religious, hospitals, libraries and office equipment owned by ministers;

(5) all growing crops, game animals kept for propagation of exhibition, in private grounds or public parks;

(6) urban development corporations, fallout shelters, and water districts;

(7) incorporated towns or cities may exempt from local taxes, up to 5 years, new manufacturing plants and public utilities;

(8) $100 of personal property used in maintaining a home; $200 for discharged veterans; family portraits, food and fuel in kind (not exceeding provisions for one year) and all grain and forage necessary to maintain for one year livestock used in supporting family;

(9) homesteads to the extent of $1,000 of assessed value.

The Property Tax Levy

The Oklahoma Constitution limits the general county ad valorem levy to 15 mills on the dollar, 5 of which must go for school district purposes. Local units can levy taxes for payment of installments of special assessment, even on homesteads, without a cash valuation. School districts are permitted to levy up to 24 mills per dollar of valuation under special conditions. Up to five mills can be levied for the purpose of erecting public buildings. The county can levy a property tax not to exceed 2.5 mills for the maintenance of a department of health. In addition to the above levies, a special levy of 1.0-2.0 mills may be approved by the voters of a county or lesser jurisdiction for the purpose of establishing and maintaining public libraries or library services.

Administration of the Property Tax in Oklahoma

Administration of the property tax lies in the hands of local governmental agents, with the one exception of assessment of railroad and public service corporation property. The assessment of all other property, both real and personal, is the duty of the County Assessor, a locally-elected official. The Legislature has made provision for a County Assessor to be elected in each of the 77 counties in Oklahoma, and to service for a term of two years. The primary functions of the county assessors is to maintain records of all taxable property and to assess the value of that property.[2]

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[2]University of Oklahoma, Bureau of Government Research, Oklahoma Government Finance, 1962.

In addition to a County Assessor, each county in Oklahoma has a County Equalization Board, consisting of three members appointed to the Board. The duties of the Board include: the correction and equalization of real and personal property values; the addition of property which has been omitted from the rolls; the cancellation of assessments upon non-taxable property; and assisting county assessors in the maintenance of permanent records.

The levying of the property tax is conducted through the County Excise Board, which consists of the same members as the County Equalization Board. After the local officials of the county, school districts, townships, and municipalities have submitted their budgets for the approaching year to the County Excise Board, that Board has the duty to make appropriations of the ad valorem tax, subject to constitutional and statutory limitations, and to make as well as certify city levies. The County Excise Board computes the tax levy and makes each appropriation for each specific purpose. A copy of the tax levy is filed with the State Auditor, and with the county clerk, the latter being held responsible for publishing notice of such levies.

The collection of the ad valorem or property tax is accomplished through the County Treasurer's office in each county. Ad valorem taxes are payable in two installments--half must be paid by January 1, and the other half must be paid by April 1 of the tax year. There is no legal duty on the County Treasurer to make demand upon the tax payer to pay the taxes, but it is the taxpayer's duty to appear and make payment before the tax becomes delinquent. No record of the amount of property tax collected within a county is submitted to any state agency. The amount

of property tax collected in each county for each purpose, such as for school districts, proves to be extremely difficult information to obtain.

Possibilities for Increasing Property Tax Revenue

Several possible alternative means exist by which the revenue produced by property taxes could be increased. Basically these could be classified as either in the nature of (1) increasing the tax base, including reducing exemptions, and including property not on the tax rolls due to inept administration of the tax, or (2) in the nature of increasing the rate of the tax. A fairly large amount of literature concerning the matter of poor administration, and numerous suggestions for elimination of the problem, can be found in the journals. For purposes of this study, the expected effects on property tax revenue by type of receiving government were estimated for two changes: (1) correcting the problem of underassessment; and (2) eliminating the homestead exemption. The determination of the rates of taxation is the affair of the local taxing jurisdictions, and is too complex to include in this particular study. No attempt was made to estimate the effect of including property not currently on the tax roll due to lack of information concerning the extent of such omission of property and its value.

According to Raymond D. Thomas,[3] a number of steps were taken during the 1930's to reduce the property tax as a source of support for

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[3]Raymond D. Thomas, A Study of Property Tax Rates and Amount of Property Tax Levied in All Local Taxing Units in Oklahoma for 1935, 1945, 1955, and 1956, Stillwater, Oklahoma, 1960.

Table 89

Amount of Homestead Exemption and Limitation on Assessed Valuation of Property in Oklahoma and Regional States

State	Amount of Homestead Exemption	Limit on Assessed Value of Property
Arkansas	None	20% of sales value
Colorado	None	30% of sales value
Kansas	None	None
Louisiana	$1,000	None
Missouri	None	None
New Mexico	None	None
Oklahoma	1,000	35% of true value
Texas	3,000	None

Source: Prentice-Hall Tax Reporter, State and Local Taxes.

state and local government services in Oklahoma. These measures included:

(1) a constitutional prohibition on the levy of property taxes for state purposes;

(2) the homestead exemption;

(3) adoption of state-aid to local schools;

(4) state and local administrative policies designed to lower sharply the level of property assessments for tax purposes;

(5) provisions for more restrictive administration of property tax limitations and for more effective administration of the tax on intangible property.

These measures, or rather, the effect of these measures were subsequently enhanced by the sharing of state-collected revenues with local units of government; the steadily increasing appropriations from state general fund for local school purposes; and the persistent tendency for the property tax to lag behind the need for more revenue for local purposes.

In the following section of this chapter, the potential revenue increase is estimated for the assumption of elimination of the homestead exemption, and for the assumption of assessment of property at maximum legal value with the elimination of the homestead exemption. In other words, the potential revenue lost through underassessment of property and the homestead was estimated for the year 1966.

Elimination of the Homestead Exemption

Article XII of the Oklahoma Constitution, adopted in 1935, authorized the Legislature to provide for the exemption of homesteads from all ad valorem taxation, with a provision that the law creating such exemption would remain in effect for not less than 20 years after en-

actment.

In accordance to this grant of authority, the Legislature in 1937 exempted homesteads from all ad valorem to the extent of $1,000 of the assessed valuation. Except in counties with population exceeding 400,000 people, application for such exemption, signed and sworn to by the property owner, is made on a prescribed form and filed with the county assessor each year. Failure to file constitutes a waiver of exemption for the year. In counties with over 400,000 population, application must be filed with the county assessor by March 15 of the year following the year when the property was bought or when it became entitled to the exemption. The exemption then continues in force until change of ownership or loss of entitlement without further application. Punishment is provided for making false or fraudulent claim for homestead exemption.

A homestead is defined as the actual residence of a natural person who is a citizen of Oklahoma and in whom actual recorded ownership of such residence is vested. A rural homestead may not exceed 160 acres of land; while an urban homestead may not exceed one acre and includes only the land upon which are located the dwelling, garage, and other out-buildings necessary and convenient for family use. Buildings used for commercial purposes cannot be included in a homestead. Neither owner of homestead presently in the armed forces, nor his family, need be actually domiciled on the land to claim the exemption--claim can be made by any member of the family or by the serviceman's agent.

All applications for homestead exemptions are passed upon by the County Assessor, who, if he disallows or reduces the claim, must mail

a written notice to the applicant not later than the fourth Monday in April. The applications approved by the assessor are reveiwed by the County Board of Equalization. The Board must given an applicant 10 days written notice of disallowance or reduction of claim. After decision of assessor or Board the applicant may obtain a hearing before the Board by filing written complaint within 10 days. Appeal from final action of the Board lies in the district court.

In order to calculate the potential increase in property tax revenue to be forthcoming from an elimination of the homestead exemption, the property tax rate should be applied to the assessed value of the homestead exemption. Some difficulty arises, however, because there is not a single uniform property tax rate for any type of taxing government in Oklahoma. Rather, each county, city or town, and school district has a separate levy (subject to constitutional limitations) which is applied to the assessed valuation of the property of the county, town or city, or school district. The rates of taxation or the tax levy for county purposes varies from county to county, and extreme variation exists among the rates of the levies by towns, cities, and school districts.

For the most part the tax base (net assessed value of taxable property) vary quite as much as the rates. An estimate of potential revenue from the property tax would be most meaningful if calculated on a county-wide basis, rather than on a state-wide basis, and should take cognizance of the existence of three separate taxing authorities; counties, cities and towns, and school districts.

The potential increase in property tax revenue for each of the three types of government by county through the elimination of the home-

stead exemption privilege was estimated with 1966 tax rates and valuations in the following manner. First, the potential increase in county government ad valorem revenue was estimated by applying the property tax levy for each county (obtained from the tax levy sheets filed with the State Board of Equalization) in 1966 to the value of the homestead exemptions in the respective county for 1966. The 4 mill county levy for public schools was not included in the county levy as it was included in the school district levy for the purposes of this study.

Secondly, the potential increase in ad valorem school revenue was estimated by calculating an average levy for school districts in each county, then applying that average rate to the value of the homestead exemption in the respective county. The average rate or levy was calculated by dividing the 1966 school district revenue from the property tax for all school districts of the county by the net assessed valuation of the taxable property of the county. The term "school district revenue" as used here does not include property tax revenue for sinking funds or building funds due to the lack of data concerning the amounts of revenue actually contributed by property taxes in 1966 for such funds.

The third step involved an estimation of the potential property tax revenue increase for the municipalities of each county. The tax levy for each municipality, which included all funds, for each city or town in the county was applied to the value of the homestead exemptions in that city or town. The data for the tax levy and value of the homestead exemptions were obtained from the tax levy sheets filed with the State Board of Equalization. After the potential increase in revenue was computed for each municipality, the potential increase was summed

for all municipalities in each county.

Potential County Revenue

The rate of property tax levies for county governments exhibited considerable variation among the 77 counties of the state, as did also the values of the homestead exemptions. County tax levies in 1966 ranged from a low of 6.60 mills in Cimarron County to a high of 24.89 mills in Potawatomie County. The county property tax levy was greater than 20 mills in 3 of the 77 counties; between 15.00 and 20.00 mills in 24 counties; and between 10.00 and 14.99 mills in 39 counties. Two counties had levies less than 10.00 mills.

Values of the homestead exemptions ranged from a low of $807,541 in Love County, to a high of $104,210,560 in Oklahoma County. Total value of the homestead exemptions in all 77 counties in 1966 amounted to almost $500 million, with the homestead exemptions in the two most urbanized counties, Tulsa and Oklahoma, accounting for slightly more than a third of this total.

Potential county revenue increases through elimination of the homestead exemption in 1966 ranged from $5,329 in Cimarron County to $1,893,506 in Oklahoma County. Tulsa could have received $1,273,632 more in 1966 had the homesteads been fully taxable. Cleveland County lost about $224,604 in potential revenue due to the homestead exemption. Twelve counties of the state could have received in excess of $100,000 in additional revenue by taxing the homesteads, and eighteen other counties could have received more than $50,000 in additional revenue. Total expected additional revenue for counties in 1966 through the elimination

of homestead exemptions for the entire state amounted to $7,560,702 (see Table 90).

Potential Increase in School District Revenue

The potential increase in revenue from the property tax for school districts was estimated on a county basis based upon the supposition that the homestead exemption be eliminated. School district revenue in this instance is restricted to the ad valorem levy of the school district plus the 4 mill county levy which is dedicated to school district purposes. Those revenues from property taxes going into constitutional building funds or sinking funds were not included in the analysis due to the lack of reliable data concerning the amounts actually received by these funds from property tax levies in the period under consideration. The method of estimation of potential increased school district revenue from the property tax involved calculation of the average school district levy for each county, which was then applied to the total value of homestead exemptions for the respective county. The resulting figure was an estimate of the potential increase in 1966 school district revenue from the property tax. Average school district levies were calculated by dividing the total 1966 property tax revenue (as defined above) for school districts in each county as reported by the State Board of Education by the net assessed value of the total real and personal property of the respective county. The use of the net assessed value of all property in the county is possible because school districts of each county encompass the entire area of the county, with a few exceptions, such as military installations of the federal government.

Table 90

Potential Increase in 1966 County Revenue Through Elimination of the Homestead Exemption, and No Change in Rates of Taxation, by County

County	Tax Levy[a]	Value of Homestead Exemption[b]	Potential Revenue Increase[c]
Adair	15.75	$ 2,089.154	$ 32,904
Alfalfa	12.15	1,835,426	22,300
Atoka	19.80	1,453,015	28,770
Beaver	13.12	1,429,165	18,750
Beckham	12.75	3,453,475	44.032
Blaine	15.50	2,398,302	37,174
Bryan	17.30	4,069,465	70,402
Caddo	13.40	4,538,576	60,817
Canadian	11.80	5,974,479	70,499
Carter	15.00	7,198,601	107,979
Cherokee	15.50	3,104,330	48,117
Choctaw	19.20	2,681,017	51,475
Cimarron	6.60	807,541	5,329
Cleveland	18.41	12,200,145	224,604
Coal	14.00	1,018,379	14,257
Commanche	12.88	13,908,175	179,137
Cotton	14.00	1,263,569	17,690
Craig	12.74	2,989,440	38,085
Creek	14.00	7,764,171	108,712
Custer	12.50	3,761,005	47,012
Delaware	11.91	2,777,550	33,081
Dewey	14.00	1,238,630	17,341
Ellis	9.00	1,317,449	11,857
Garfield	12.50	11,724,083	146,551
Garvin	14.00	5,201,937	72,827
Grady	15.64	5,921,715	92,616
Grant	12.00	1,801,885	21,623
Greer	14.00	1,762,258	24,672
Harmon	16.67	1,122,560	18,713
Harper	12.00	1,114,993	13,380

Table 90 (continued)

County	Tax Levy[a]	Value of Homestead Exemption[b]	Potential Revenue Increase[c]
Haskell	19.32	$ 1,783,910	$ 34,465
Hughes	17.53	2,860,545	50,145
Jackson	16.40	4,322,023	70,881
Jefferson	14.90	1,369,784	20,410
Johnston	17.75	1,273,260	22,600
Kay	14.00	10,526,035	147,364
Kingfisher	12.95	2,486,750	32,203
Kiowa	13.80	2,690,923	37,135
Latimer	13.60	1,281,336	17,412
Leflore	15.55	4,849,240	75,406
Lincoln	19.00	3,646,347	69,281
Logan	13.00	3,468,935	45,096
Love	21.50	1,000,604	21,513
McClain	16.50	2,398,256	39,571
McCurtain	16.50	3,853,577	63,584
McIntosh	15.50	1,840,479	28,527
Major	13.85	1,718,415	23,800
Marshall	18.36	1,380,774	25,351
Mayes	14.50	4,180,135	60,612
Murray	17.95	1,933,437	34,705
Muskogee	16.74	11,318,667	189,474
Noble	13.75	2,114,248	29,071
Nowata	14.00	2,248,455	31,478
Okfuskee	14.00	1,730,690	24,230
Oklahoma	18.17	104,210,560	1,893,506
Okmulgee	17.60	6,461,543	113,723
Osage	13.50	5,605,459	75,674
Ottawa	10.25	5,452,177	55,885
Pawnee	14.00	1,962,155	27,470
Payne	14.00	7,709,322	107,930
Pittsburg	17.40	6,162,265	107,223
Pontotoc	16.85	5,528,010	93,147
Pottawatomie	23.07	8,227,476	189,808

Table 90 (continued)

County	Tax Levy[a]	Value of Homestead Exemption[b]	Potential Revenue Increase[c]
Pushmataha	15.08	$ 9,885,720	$ 28,093
Roger Mills	21.20	9,449,595	21,763
Rogers	15.35	40,596,530	71,454
Seminole	16.18	23,710,601	71,664
Sequoyah	24.89	12,924,827	97,931
Stephens	13.60	8,632,640	117,404
Texas	11.10	2,763,465	30,674
Tillman	15.90	2,533,433	40,282
Tulsa	16.76	75,992,340	1,273,632
Wagner	15.25	3,324,167	50,694
Washington	14.58	9,700,931	141,440
Washita	14.00	2,558,276	35,816
Woods	13.95	2,567,786	35,821
Woodward	14.00	2,890,265	40,464
Total		$472,387,805	$7,560,702

Source: [a]County levy reports for 1966 files with the State Board of Equalization, State Capitol, Oklahoma City

[b]Oklahoma Tax Commission, Property Tax Division

[c]Calculated by applying tax levy to value of homestead exemption.

Average school district levies (county-wide) ranged within limits of 1.864 per cent of net assessed value or 18.64 mills per dollar of net assessed value, to 4.158 per cent or 41.58 mills per dollar in Osage County. Property tax revenue, however, is determined by the taxable value of the property (the base) as well as the size of the tax levy (the rate). Due to considerable variations in the value of the homestead exemptions, the amount of potential increase in school district revenue varied considerably.

The smallest potential increase in 1966 school district revenue through elimination of the homestead exemption was $19,135 in Roger Mills County. At the other extreme, school districts in Oklahoma County could have obtained an additional $2,900,180 in revenue and school districts in Tulsa County could have realized $2,310,167 additional revenue with the elimination of the homestead exemption. The latter two counties displayed by far the largest potential increase in school district revenue. Cleveland County school districts would have had the third largest increase in revenue with an amount of $415,781. Three counties would have had increases in school district revenues in amounts between $300,000 and $400,000; seven counties had potential increases ranging between $200,000 and $300,000; and nineteen counties could have increased school district revenues by amounts ranging from $100,000 to $200,000. School district revenue for the enitre state of Oklahoma in 1966 could have been increased by $13,592,802 simply by removing the homestead exemption and maintaining the same tax rates. (See Table 91).

Potential Increase in Municipal Revenue

Table 91

Potential Increase in School District Revenue from Property Tax in 1966 with Elimination of the Homestead Exemption and No Change in Rates of Taxation, by County

County	School District Revenue from Ad Valorem Tax (1966)[a]	Net Assessed Valuation of Property in County	Property Tax Revenue ÷ Net Value	Value of Homestead Exemption	Potential Increase in School District Revenue
Adair	$ 179,180	$ 6,329,816	.02828	$ 2,089,154	$ 59,081
Alfalfa	740,373	27,327,428	.02733	1,835,426	50,162
Atoka	170,557	7,626,465	.02242	1,453,015	32,577
Beaver	855,509	38,736,001	.02209	1,429,165	31,570
Beckham	708,038	23,942,744	.02057	3,453,475	102,119
Blaine	646,585	20,146,115	.03211	2,398,302	77,009
Byran	497,449	17,095,714	.02907	4,069,465	118,299
Caddo	1,037,344	39,728,768	.02610	4,538,576	118,457
Canadian	1,288,521	53,659,764	.02402	5,974,479	143,507
Carter	1,082,339	37,411,489	.02892	7,198,601	208,184
Cherokee	252,303	9,811,402	.02568	3,104,330	79,719
Choctaw	243,722	8,624,958	.02828	2,681,017	75,819
Cimarron	481,380	18,599,128	.02586	807,541	20,883
Cleveland	1,910,069	56,032,353	.03408	12,200,145	415,781
Coal	159,479	6,022,111	.02640	1,018,379	26,885
Commanche	1,562,565	56,248,814	.02778	13,908,175	386,369
Cotton	238,341	9,810,091	.02426	1,263,569	30,654
Craig	511,083	16,456,959	.03105	2,989,440	92,822
Creek	1,131,351	40,172,787	.02815	7,764,171	218,590
Custer	840,574	28,875,608	.02912	3,761,005	109,520

Table 91 (continued)

County	School District Revenue from Ad Valorem Tax (1966)[a]	Net Assessed Valuation of Property in County	Property Tax Revenue ÷ Net Value	Value of Homestead Exemption	Potential Increase in School District Revenue
Delaware	$ 315,900	$13,010,597	.02429	$ 2,777,550	$ 67,467
Dewey	416,741	13,036,847	.03199	1,238,630	39,624
Ellis	382,799	13,621,527	.02812	1,317,449	37,047
Garfield	2,665,607	34,765,625	.03003	11,724,083	352,074
Garvin	997,084	34,335,997	.02904	5,201,937	151,064
Grady	985,633	35,167,673	.02804	5,921,715	166,045
Grant	669,885	28,063,370	.02387	1,801,885	43,011
Greer	273,757	10,431,454	.02627	1,762,258	46,294
Harmon	209,202	7,798,405	.02680	1,122,560	30,084
Harper	541,201	16,800,152	.03220	1,144,993	36,869
Haskell	203,030	7,562,788	.02684	1,783,910	47,880
Hughes	401,042	14,088,788	.02846	2,860,545	81,411
Jackson	780,847	26,816,809	.02916	4,322,023	126,030
Jefferson	330,842	11,440,017	.03893	1,369,784	39,628
Johnston	218,175	6,946,270	.03138	1,273,260	39,955
Kay	2,344,564	85,264,648	.02750	10,526,035	289,466
Kingfisher	1,028,283	32,212,396	.03191	2,486,750	79,352
Kiowa	699,373	23,419,761	.02985	2,690,923	80,324
Latimer	205,580	6,714,060	.03010	1,281,336	39,311
Leflore	527,286	17,506,614	.03010	4,849,240	145,962

Table 91 (continued)

County	School District Revenue from Ad Valorem Tax	Net Assessed Valuation of Property in County	Property Tax Revenue ÷ Net Value	Value of Homestead Exemption	Potential Increase in School District Revenue
Lincoln	$ 699,372	$23,351,930	.02993	$ 3,646,347	$ 109,135
Logan	708,870	26,705,665	.02655	3,468,935	92,100
Love	200,087	7,262,716	.02754	1,000,604	27,557
Major	352,661	17,313,187	.02039	1,718,415	35,038
Marshall	197,569	7,044,473	.02811	1,380,774	38,814
Mayes	504,639	19,407,090	.02602	4,180,135	108,767
McClain	385,004	15,367,738	.02505	2,398,256	60,076
McCurtain	417,008	15,008,788	.02778	3,853,577	107,052
McIntosh	230,851	8,296,049	.02784	1,840,479	51,239
Murray	388,937	13,304,425	.02924	1,933,437	56,534
Muskogee	1,400,883	61,508,452	.02278	11,318,667	257,839
Noble	644,397	20,616,514	.03124	2,114,247	66,049
Nowata	331,748	11,480,123	.02892	2,248,455	65,025
Okfuskee	414,048	13,485,065	.03070	1,730,690	53,132
Oklahoma	16,927,507	608,349,966	.02783	104,210,560	2,900,180
Okmulgee	869,181	28,354,538	.03065	6,461,543	198,046
Osage	1,178,694	46,722,603	.04158	5,605,459	233,074
Ottawa	797,060	27,923,881	.02854	5,452,177	155,605
Pawnee	374,798	12,112,458	.03096	1,962,155	60,748
Payne	1,132,812	42,233,445	.02683	7,709,322	206,841

Table 91 (continued)

County	School District Revenue from Ad Valorem Tax (1966)[a]	Net Assessed Valuation of Property in County	Property Tax Revenue ÷ Net Value	Value of Homestead Exemption	Potential Increase in School District Revenue
Pittsburg	$ 682,811	$ 23,862,908	.02862	$ 6,162,265	$ 176,364
Pontotoc	895,763	29,054,275	.03084	5,528,101	170,484
Pottawatomie	959,413	27,996,605	.03425	8,227,476	281,791
Pushmataha	239,074	8,022,770	.02979	1,862,950	55,497
Roger Mills	157,056	8,423,030	.01864	1,026,565	19,135
Rogers	1,012,636	35,941,565	.02818	4,654,965	131,177
Seminole	620,979	19,281,401	.03221	4,429,200	142,664
Sequoyah	257,038	8,990,287	.02859	3,934,540	112,488
Stephens	1,140,408	39,675,898	.02873	8,632,640	248,016
Texas	1,287,371	48,794,820	.02634	2,763,465	72,790
Tillman	569,184	21,850,242	.02604	2,533,433	65,970
Tulsa	17,660,122	580,898,064	.03040	75,992,340	2,310,167
Wagoner	310,878	14,524,939	.02141	3,324,167	71,170
Washington	1,882,356	59,998,303	.03137	9,700,931	304,318
Washita	534,884	22,432,384	.02384	2,558,276	60,989
Woods	905,352	27,150,418	.02965	2,567,786	76,135
Woodward	777,959	30,395,851	.02560	2,890,265	73,991
TOTAL FOR STATE					$13,592,802

Source: Data on school district revenue from Oklahoma State Department of Education; data on property valuation from the Oklahoma Tax Commission, mimeographed material.

The expected effect of removing the homestead exemption of 1966 Oklahoma municipal revenue was estimated by applying the tax levy, including all property tax levies, for each town or city in the state to the value of the homestead exemption of that town or city. The potential increases were then summarized or totaled on a county basis.

Greater variation among the counties exists with respect to the potential municipal revenue than with either county or school district revenue. Such variation in potential municipal revenue is to be expected in light of the predominantly urban nature of Oklahoma County and Tulsa County, and the predominantly rural nature of the remaining counties, with a few exceptions. Elimination of the homestead exemption in 1966 would have produced additional municipal revenues in amounts as small as $367 in Ellis County, to amounts as large as $2,035,498 in Tulsa County and $1,865,460 in Oklahoma County. As was the case with county revenue and school district revenue, the amount of potential increase in property tax revenue for municipalities depended upon both the size of the homestead exemption as well as the size of the tax levy. The potential increase in municipal revenue was less than $10,000 in 16 of the 77 counties of Oklahoma, and greater than $100,000 in nine counties (not including Oklahoma and Tulsa Counties). Total potential increase in municipal revenue through elimination of the homestead exemption in 1966 for the entire state amounted to $6,971,625 (see Table 92).

In summary, the combined effect of eliminating the homestead exemption feature of the property tax in Oklahoma on county, school district, and municipality revenues was estimated to be an increase of approximately $28,125,129 through the application of the existing 1966

Table 92

Potential Increase in 1966 Oklahoma Municipality Revenue Through Elimination of the Homestead Exemption, and No Change in Rates of Taxation

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Adair			
Stilwell	14.09	$ 345,215	$ 4,864
Westville	27.50	180,700	4,970
Total			(9,834)
Alfalfa			
Aline	19.25	131,023	2,523
Carmen	19.00	169,810	3,226
Cherokee	22.67	725,143	16,439
Goltry	1.75	108,321	189
Helena	1.75	198,450	348
Jet	4.80	159,981	768
Total			(24,493)
Atoka			
Atoka City	14.50	426,575	(6,185)
Beaver			
Beaver City	10.92	455,090	4,970
Forgan	2.00	112,815	225
Gate	2.00	36,915	121
Knowles	2.00	9,195	19
Total			5,335
Beckham			
Elk City	23.18	1,583,590	36,707
Sayre	11.25	586.710	6,601
Erick	12.00	285,455	3,425
Texola	1.90	22,330	42
Carter	6.40	73,820	473
Total			47,248

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Blaine			
Watonga	14.00	$ 680,185	$ 9,523
Geary	8.25	296,098	2,442
Okeene	27.00	324,834	7,771
Canton	18.00	164,180	2,955
Hitchcock	10.00	30,835	308
Longdale	24.00	41,685	1,001
Total			24,000
Bryan			
Durant	3.94	1,736,671	6,843
Caddo	7.90	152,453	1,336
Calera	7.40	168,980	1,250
Total			9,429
Caddo			
Anadarko	23.32	1,011,531	23,589
Apache	11.00	283,893	3,123
Bridgeport	2.00	10,214	23
Carnegie	13.00	336,936	4,381
Cement	24.50	144,432	3,539
Cyril	8.50	268,758	2,285
Eakly	12.35	45,133	558
Ft. Cobb	7.40	131,274	971
Gracemont	2.00	63,055	126
Hinton	12.50	215,138	2,689
Hydro	2.00	158,583	317
Lookeba	2.00	22,526	45
Binger	4.30	123,406	530
Total			42,176
Canadian			
Calcument	8.00	83,308	666
El Reno	26.39	2,802,646	73,962
Geary	8.25	13,675	-----
Mustang	28.25	310,595	8,774
Okarche	19.50	76,235	1,486
Oklahoma City	24.44	4,984,056	121,810
Piedmont	12.10	41,860	506

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Canadian . . .			
Union City	2.00	$ 80,830	$ 162
Yukon	13.00	1,461,262	18,996
Total			226,362
Carter			
Ardmore	28.00	4,547,032	127,317
Healdton	12.75	474,735	6,053
Total			133,370
Cherokee			
Tahlequah	15.50	1,025,930	10,259
Choctaw			
Hugo	14.00	1,093,314	15,306
Boswell	11.47	148,159	1,699
Total			17,005
Cimarron			
Boise City	3.40	411,550	1,399
Keyes	29.12	104,910	3,055
Total			4,454
Cleveland			
Norman	16.746	6,822,775	114,281
Lexington	------	---------	-------
Noble	14.690	340,925	5,008
Moore	4.680	3,335,150	15,608
Total			134,897
Coal			
Colgate	11.00	385,565	4,241
Commanche			
Cache	15.45	203,310	3,141
Elgin	17.20	166,780	2,867
Fletcher	4.60	226,450	1,041

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Commanche . . .			
Geronimo	76.20	$ 61,465	$ 4,683
Lawton	37.40	11,743,920	439,223
Sterling	8.90	126,130	1,122
Total			452,078
Cotton			
Temple	11.75	n.a.	-------
Craig			
Venita	6.50	1,322,979	8,599
Welch	2.45	157,780	3,865
Total			12,464
Creek			
Bristow	22.80	974,715	22,224
Depew	1.50	84,085	126
Drumwright	10.50	623,590	6,548
Kellyville	1.50	149,135	224
Kiefer	20.50	63,460	1,301
Mannford	1.50	85,950	129
Mounds	20.00	138,190	2,764
Oilton	.90	207,055	186
Sapulpa	23.50	2,676,630	62,901
Shamrock	none	---------	------
Slick	1.50	6,623	------
Total			95,403
Custer			
Arapahò	20.50	n.a.	-------
Butler	1.50	n.a.	-------
Clinton	22.75	n.a.	-------
Custer City	1.50	n.a.	-------
Thomas	15.40	n.a.	-------
Weatherford	7.50	n.a.	-------
Total			

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemptions	Potential Revenue Increase
Delaware			
Grove	18.16	$ 279,005	$ 5,067
Jay	8.21	226,055	1,856
Total			6,923
Dewey			
Leedey	11.73	106,090	1,244
Seiling	36.50	168,168	6,138
Talogo	17.60	71,958	1,266
Vici	25.00	211,659	5,016
Total			13,664
Ellis			
Fargo	2.5	63,942	16
Arnett	6.8	151,981	103
Gage	8.6	135,860	117
Shattuck	3.4	394,971	131
Total			367
Garfield			
Breckenridge	2.50	15,079	38
Covington	2.50	126,289	315
Douglas	24.20	17,038	412
Drummond	12.50	74,468	931
Enid	16.20	9,420,240	152,608
Fairmont	40.50	34,856	1,412
Garber	6.00	236,615	1,420
Hillsdale	34.50	16,156	557
Hunter	19.15	53,061	1,016
Kremlin	9.80	24,004	235
Lahoma	92.11	33,798	3,113
North Enid	6.50	97,600	634
Waukomis	21.87	142,399	3,114
Total			165,806
Garvin			
Pauls Valley	17.50	1,330,593	23,285
Lindsay	8.44	784,321	6,620

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Garvin . . .			
Stratford	1.00	$ 257,731	$ 258
Maysville	1.00	355,098	355
Paoli	1.00	81,904	82
Wynnewood	9.00	520,283	4,682
Elmore City	21.00	194,334	4,081
Total			39,363
Grady			
Chickasha	21.65	3,140,421	67,990
Minco	13.40	251,810	3,374
Rush Springs	16.65	296,424	4,935
Tuttle	4.95	198,321	982
Total			77,281
Grant			
Medford	29.40	330,675	9,722
Pond Creek	27.69	223,930	6,201
Jefferson	2.00	19,845	40
Renfrow	2.00	11,790	24
Wakita	2.00	130,780	262
Lamont	2.00	155,370	311
Nash	19.00	31,425	597
Deer Creek	2.00	65,085	130
Total			17,287
Greer			
Mangum	77.50	991,530	76,844
Granite City	52.90	237,375	12,557
Total			89,401
Harmon			
Hollis	21.00	688,190	14,452
Gould	12.50	73,665	920
Total			15,372

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Harper			
Buffalo	16.62	$ 333,020	$ 5,535
Laverne	30.05	345,850	10,393
May	2.00	19,130	38
Rosston	2.00	10,820	22
Total			15,988
Haskell			
Stigler	13.40	501,925	6,726
Hughes			
Holdenville	19.90	1,285,040	25,572
Wetumka	20.60	302,725	6,236
Calvin	28.50	74,445	2,122
Total			33,930
Jackson			
Altus	15.15	3,050,930	46,222
Blair	8.00	177,265	1,418
Duke	23.00	79,455	1,827
Olustee	12.00	102,808	1,234
Total			50,701
Jefferson			
Terral	21.00	84,803	1,781
Waurika	32.50	378,399	7,946
Total			9,727
Johnston			
Wapanucko	10.55	35,580	375
Tishamingo	7.00	402,875	2,820
Mill Creek	9.75	49,130	479
Total			3,674
Kay			
Newkirk	22.00	n.a.	-----
Ponca City	17.46	n.a.	-----
Tonkawa	21.55	n.a.	-----

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Kingfisher			
Kingfisher	14.20	853,245	12,116
Hennessey	21.20	422,555	8,958
Loyal	29.00	32,460	941
Okarche	19.50	175,720	3,426
Total			25,441
Kiowa			
Hobart	27.80	1,099,377	30,562
Lone Wolf	5.00	111,642	558
Synder	14.45	276,801	3,999
Mt. Park	22.75	48,407	1,101
Roosevelt	37.22	89,310	3,324
Total			39,544
Latimer			
Wilburton	18.00	416,085	7,490
Red Oak	25.00	127,775	3,194
Total			10,684
Leflore			
Heavener	19.40	541,990	10,515
Panama	29.61	124,175	3,677
Poteau	16.90	860,610	14,544
Talihina	23.70	206,825	4,902
Wister	17.06	184,375	3,145
Total			36,783
Lincoln			
Chandler	23.00	529,498	12,178
Davanport	21.70	119,984	2,603
Wellston	8.90	152,358	1,356
Total			16,137
Logan			
Coyle	12.50	71,380	892
Cresent	6.52	300,810	1,961

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Logan . . .			
Guthrie	14.25	$1,721,995	$ 24,538
Marshall	10.00	91,075	922
Mulhall	17.60	66,105	1,163
Orlando	11.50	40,885	470
Total			29,946
Love			
Marietta	7.00	370,547	2,594
McClain	(no municipalities levying property taxes)		
McCurtain			
Idabel	16.00	n.a.	-----
Broken Bow	27.15	n.a.	-----
Valliant	22.00	n.a.	-----
Total			-----
McIntosh			
Checotah	5.10	524,698	2,676
Eufala	4.50	387,995	1,746
Total			4,422
Major			
Ames	30.00	48,515	1,455
Cleo Springs	10.00	66,025	660
Fairview	19.24	668,560	12,863
Ringwood	15.00	64,898	973
Meno	22.90	39,271	899
Total			16,850
Marshall			
Madill	18.50	570,907	10,562
Kingston	8.50	114,877	2,140
Oaklan	17.15	47,589	816
Total			12,354

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Mayes			
Pryor	16.14	$1,512,750	$ 24,416
Adair	24.00	89,150	2,140
Langley	16.15	58,075	938
Locust Grove	15.65	156,320	2,446
Total			29,940
Murray			
Davis	19.99	461,030	8,760
Dougherty	19.00	31,810	604
Sulpher	5.00	908,009	4,540
Total			13,904
Muskogee			
Boynton	14.00	77,790	1,089
Ft. Gibson	21.42	242,355	5,191
Haskell	17.00	927,955	15,775
Muskogee	18.25	7,245,057	132,222
Total			154,277
Noble			
Billings	13.80	128,115	1,768
Marland	17.10	34,110	583
Morrison	24.30	49,103	1,193
Perry	14.39	1,184,035	17,038
Red Rock	10.00	34,845	348
Total			20,903
Nowata			
Nowata	7.25	902,305	6,542
Delaware	32.00	106,920	3,421
Lenapoh	55.85	59,805	3,340
South Coffeyville	18.66	171,480	3,200
Total			16,503

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Okfuskee			
Paden	11.00	$ n.a.	$ -----
Okemah	5.90	n.a.	-----
Weleetka	21.52	n.a.	-----
Oklahoma*			
Nicoma Park	3.00	527,735	1,583
Oklahoma City	25.44	71,365,185	1,815,530
Smith Village	3.00	30,000	90
Spencer	15.66	465,400	7,288
Valley Brook	4.89	265,290	1,297
Vollage	5.03	3,333,195	16,766
Warr Acres	11.25	2,036,115	22,906
Total			1,865,460
Okmulgee			
Okmulgee	9.30	2,927,491	27,226
Henryetta	12.88	1,334,689	17,191
Dewar	11.60	121,900	1,414
Total			45,831
Osage			
Barnsdal	15.00	299,815	4,497
Fairfax	17.20	410,311	7,057
Hominy	6.13	532,013	3,261
Pawhuska	17.25	950,115	16,389
Shidler	14.10	136,860	1,930
Total			33,134
Ottawa			
Commerce	15.00	562,980	8,445
Miami	2.40	2,798,445	6,716
Fairlawn	25.50	167,975	4,283
Quapaw	29.00	109,745	3,183
Total			22,627

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Pawnee			
Cleveland	6.60	$ 513,615	$ 3,390
Jennings	15.00	26,945	404
Pawnee	20.00	413,470	8,269
Total			12,063
Payne			
Glencoe	5.20	104,650	544
Stillwater	11.00	3,230,735	3,554
Yale	22.50	302,200	6,802
Total			10,900
Pittsburg			
Canadian	22.20	29,053	645
Crowder	32.97	42,253	1,393
Hartshorne	12.54	299,835	3,760
Kiowa	10.74	93,835	1,008
Krebs	6.24	216,480	1,351
McAlester	14.00	3,439,169	48,151
Savanna	23.33	84,750	1,977
Total			58,285
Pontotoc			
Ada	21.40	3,082,571	65,967
Allen	24.40	169,880	4,145
Francis	24.60	39,885	981
Roff	18.00	130,625	2,351
Stonewall	5.40	127,565	689
Total			74,133
Pottawatomie			
Earlsboro	38.50	16,902	651
McLoud	0.50	89,510	44
Shawnee	21.54	4,873,986	104,986
Wanette	0.54	66,818	33
Total			105,714

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Pushmataha			
Clayton	12.50	114,525	1,432
Roger Mills			
Hammon	4.70	78,805	370
Cheyenne	28.99	169,900	4,757
Total			5,127
Rogers			
Claremore	9.50	1,379,745	1,311
Inola	12.00	144,480	1,733
Caloosa	5.30	82,700	438
Total			3,482
Seminole			
Wewoka	31.00	865,045	26,816
Seminole	20.65	1,316,675	27,189
Sasakwas	29.30	27,380	802
Total			54,807
Sequoyah			
Roland	67.00	44,792	3,001
Sallisaw	18.66	430,376	8,031
Muldrow	51.20	141,189	7,229
Gore	105.17	49,042	5,158
Vian	9.19	87,621	805
Total			24,224
Stephens			
Commanche	9.00	463,935	4,175
Duncan	21.70	4,959,980	107,632
Marlow	18.00	1,095,630	19,721
Total			131,528
Texas			
Guymon	12.50	1,309,880	16,374
Hardesty	11.38	43,030	490

Table 92 (continued)

County and Municipalities	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Texas . . .			
Hooker	17.08	$ 397,655	$ 6,792
Tyrone	12.68	94,735	1,201
Goodwell	12.14	76,160	925
Texhoma	10.25	197,930	2,029
Total			27,811
Tillman			
Fredrick	9.60	1,251,611	12,015
Grandfield	2.50	317,610	794
Tipton	15.30	245,226	3,752
Hollister	30.00	15,859	476
Total			17,037
Tulsa			
Bixby	3.00	367,510	1,102
Broken Arrow	5.74	1,839,010	10,556
Collinsville	9.62	552,399	5,314
Glenpool	3.20	60,350	193
Jenks	16.90	393,090	6,643
Owasso	19.94	502,950	10,029
Sand Springs	11.23	2,031,320	22,812
Sperry	13.86	214,230	2,969
Tulsa	16.64	58,646,680	1,975,880
Total			2,035,498
Wagner			
Wagner	13.25	913,495	12,104
Coweta	9.10	307,593	2,799
Okay	42.00	40,680	1,708
Red Bird	32.50	23,850	775
Total			17,386
Washington			
Bartlesville	15.29	6,323,911	96,692
Copan	15.00	125,961	1,889
Dewey	16.80	838,095	14,090
Ochelata	21.12	47,389	1,001

Table 92 (continued)

County and Municipality	Total Levy	Value of Homestead Exemption	Potential Revenue Increase
Washington . . .			
Ramona	21.00	120,738	2,535
Total			116,197
Washita			
Dill City	12.56	126,085	1,584
Burns Flat	11.81	32,856	388
Total			1,972
Woods			
Alva	17.50	1,380,000	24,150
Avard	1.50	5,898	9
Capron	1.50	10,514	16
Dacoma	38.90	47,730	1,857
Freedom	1.50	49,832	74
Waynoka	24.50	384,075	9,410
Total			35,516
Woodward			
Woodward	18.30	1,804,495	33,022
Mooreland	5.60	256,690	1,437
Ft. Supply	2.30	92,945	214
Sharon	2.30	22,800	52
Quinton	2.30	8,560	20
Total			34,745
STATE TOTAL			$6,971,625

Source: Computed from data on tax levies from levy sheets filed by counties with State Board of Equalization; and values of homestead exemptions on same levy sheets.

*Levies for several municipalities in Oklahoma County were not available.

Table 93

Potential Increase in 1966 County, Municipality, and School District Revenue in Oklahoma Through Eliminating the Homestead Exemption, by County

County	Potential Increase in County Revenue	Potential Increase in Municipality Revenue	Potential Increase in School District Revenue
Adair	$ 32,904	$ 9,834	$ 59,081
Alfalfa	22,300	24,493	50,162
Atoka	28,770	6,185	32,577
Beaver	18,750	5,335	31,570
Beckham	44,032	47,248	102,119
Blaine	37,174	24,000	77,009
Bryan	70,402	9,429	118,299
Caddo	60,817	42,176	118,457
Canadian	70,499	226,362	143,507
Carter	107,979	133,370	208,184
Cherokee	48,117	10,259	79,719
Choctaw	51,475	17,005	75,819
Cimarron	5,329	4,454	20,883
Cleveland	224,604	134,897	415,781
Coal	14,257	4,241	26,885
Commanche	179,137	452,078	386,369
Cotton	17,690	n.a.	30,654
Craig	38,085	12,464	92,822
Creek	108,712	95,403	218,590
Custer	47,012	n.a.	109,520
Delaware	33,081	6,923	67,467
Dewey	17,341	13,664	39,624
Ellis	11,857	367	37,047
Garfield	146,551	165,806	352,074
Garvin	72,827	39,363	151,064
Grady	92,616	77,281	166,045
Grant	21,623	17,287	43,011
Greer	24,672	89,401	46,294
Harmon	18,713	15,372	30,084
Harper	13,380	15,988	36,869

Table 93 (continued)

County	Potential Increase in County Revenue	Potential Increase in Municipality Revenue	Potential Increase in School District Revenue
Haskell	$ 34,465	$ 6,726	$ 47,880
Hughes	50,145	33,930	81,411
Jackson	70,881	50,701	126,030
Jefferson	21,410	9,727	39,628
Johnston	22,600	3,674	39,955
Kay	147,364	n.a.	289,466
Kingfisher	32,203	25,441	79,352
Kiowa	37,135	39,544	80,324
Latimer	17,412	10,684	39,311
Leflore	75,406	36,783	145,962
Lincoln	69,281	16,137	109,135
Logan	45,096	29,946	92,100
Love	21,513	n.a.	27,557
McClain	39,571	none	35,038
McCurtain	63,584	n.a.	38,814
McIntosh	28,527	4,422	108,767
Major	23,800	16,850	60,076
Marshall	25,251	12,354	107,052
Mayes	60,612	29,940	51,239
Murray	34,705	13,904	56,839
Muskogee	189,474	154,277	257,839
Noble	29,071	20,930	66,049
Nowata	31,478	16,503	65,025
Offuskee	24,230	n.a.	53,132
Oklahoma	1,893,506	1,865,460	2,900,180
Okmulgee	113,723	45,831	198,046
Osage	75,674	33,134	233,074
Ottawa	55,885	22,627	155,605
Pawnee	27,470	10,063	60,748
Payne	107,930	10,900	206,841
Pittsburg	107,223	58,285	176,364
Pontotoc	93,147	74,133	170,484
Pottawatomie	189,808	105,714	281,791

Table 93 (continued)

County	Potential Increase in County Revenue	Potential Increase in Municipality Revenue	Potential Increase in School District Revenue
Pushmataha	$ 28,093	$ 1,432	$ 55,497
Roger Mills	21,763	5,127	19,135
Rogers	71,454	3,482	131,177
Seminole	71,664	54,807	142,664
Sequoyah	97,931	24,224	112,488
Stephens	117,404	131,528	248,016
Texas	30,674	27,811	72,790
Tillman	40,282	17,037	65,970
Tulsa	1,273,632	2,035,498	2,310,167
Wagner	50,694	17,386	71,170
Washington	141,440	116,197	304,318
Washita	35,816	1,972	60,989
Woods	35,821	35,516	76,135
Woodward	40,464	34,745	73,991
TOTAL	$7,560,702	$6,971,625	$13,592,802

Combined Total $28,125,129

Source: Tables 90, 91, and 92.

tax rates to the value of the homestead exemption (see Table 93).

The Problem of Underassessment

In the preceeding section, it was demonstrated that due to the homestead exemption provision in Oklahoma, the three main types of local governmental units in Oklahoma--county, school district, and minicipality--lost more than $28,000,000 in potential revenue in 1966 which would have been forthcoming had the same rates of taxation been applied to the homestead exemptions as to the net assessed value of real and personal property. The revenue effect of the homestead exemption is to shrink the tax base, which is limited by the gross assessed value of the real and personal property within the taxing jurisdiction of a governmental unit. Homestead exemptions are deductions from the gross assessed value of property.

While applying the tax levy to gross valuation, rather than net valuation, would increase revenue, an alternative or supplementary measure would involve increasing the gross valuation itself, thus in effect, enlarging the tax base. Basically, what is suggested here is a correction of the problem of underassessment, which results in a smaller than possible tax base. The objective of this section is to estimate the effect on local governments' 1966 revenues by assessing property in Oklahoma at maximum constitutional limits.

Property in Oklahoma cannot be assessed at values greater than 35 per cent of the "true" market value of the property.[4] The Ad Valorem

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[4]Arkansas and Colorado have lower limits than Oklahoma; however, none of the other regional states have such limitations on assessment.

Division of the Oklahoma Tax Commission in recent years has conducted annual studies in attempts to estimate the average assessed valuation of real property in Oklahoma as a percentage of the sales value of the property for both rural and urban property, as well as all property, in each county of the state. The problem is complicated by the existence of the 77 independent county assessors, and the resulting lack of uniformity and equality in the assessment of property.

In these studies the Ad Valorem Division measures the central tendencies achieved by the diverse assessment processes of the counties by means of a statistical analysis of assembled data generally referred to as a "sales ratio study." Several methodologies are used by the Ad Valorem Division, each of which is recognized as being an acceptable measure of central tendencies.

The basic procedure for the studies is the same regardless of the methodology adopted. A random sample of the transactions of real property in a given year is taken from the deed records of the County Clerk in each county. The value of the sale is determined from the value of the federal documentary stamps affixed to the deed prior to its being recorded. Next, the assessed value of the property sample is obtained from the tax rolls of the County Assessor and the percentage of assessed value to the computed sales value is calculated. The average or central value of the ratios in each county is then calculated. There are three averaging techniques used by the Ad Valorem Division in the assessment-sales ratios studies: the arithmetic mean, the median, and the sales-weighted mean.

Arithmetic means are calculated simply by summing the ratios and

dividing the total by the number of ratios involved in the summation. The median is simply the figure representing the midpoint in a series of figures, in this case in the series of ratios. A sales-weighted mean is computed by dividing the total assessed value of all parcels of property in the sample by their total sales value, with no regard to the individual ratios. Thus each transaction in the sample is weighted by its sale price.

The results of the assessment-sales ratio studies utilizing each of the three methods of averaging are available from the Ad Valorem Division of the Oklahoma Tax Commission. For purposes of estimating the potential increase in local governments' revenues, a three-year average of the Oklahoma assessment-sales ratio studies, based upon the use of the arithmetic mean method of averaging, for the time span 1964-1966 was adopted in this study. The assessment-sales ratios were obtained through sampling of real property transactions, but it was assumed here that the ratios were approximately indicative for the personal property assessment as well. Such an assumption does not appear to be excessively dangerous to the accuracy of the estimates, at least in the direction of overestimation, as it is extremely doubtful that personal property in Oklahoma counties is assessed at higher percentages of sales value than is real property.

The assessment-sales ratios for urban property ranged from a low of 15.20 per cent in Roger Mills County to a high of 28.00 per cent in Coal County. Urban property assessment as a percentage of sales value averaged less than 20 per cent in 27 counties and 25 per cent in Coal County. Urban property assessment as a percentage of sales value aver-

Table 94

Three-Year Average of the Oklahoma Assessment-Sales Ratio Study, Arithmetic Mean Computation, for Years 1964, 1965, and 1966

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Adair	63	22.46	106	20.53	169	21.28
Alfalfa	100	24.82	51	14.61	161	21.79
Atoka	58	16.64	83	15.22	141	15.47
Beaver	32	23.80	47	12.30	79	17.24
Beckham	175	21.13	62	15.84	237	19.57
Blaine	131	20.53	55	15.50	186	19.07
Bryan	137	19.74	63	16.91	200	18.92
Caddo	193	19.09	161	15.34	354	17.30
Canadian	452	18.00	49	20.06	501	18.07
Carter	351	23.49	82	18.75	433	22.39
Cherokee	123	20.59	81	19.36	204	20.14
Choctaw	76	21.49	87	17.92	163	19.38
Cimarron	29	27.65	43	13.55	72	18.86
Cleveland	1,869	22.70	80	13.77	1,949	22.29
Coal	49	28.00	37	16.28	86	22.65
Commanche	1,203	17.88	54	13.56	1,257	17.70
Cotten	78	18.29	45	13.55	123	16.62
Craig	98	20.96	70	18.85	168	19.87
Creek	538	22.72	108	17.89	646	21.82
Custer	210	18.60	56	12.60	266	17.35
Delaware	70	17.42	94	18.99	164	18.44
Dewey	42	22.62	33	14.67	75	18.82
Ellis	45	19.55	44	13.62	89	16.81
Garfield	1,155	18.15	45	18.63	1,200	18.18
Garvin	258	21.54	115	19.51	373	20.59
Grady	260	23.30	106	18.72	366	21.22
Grant	73	22.96	70	13.69	143	17.40
Greer	77	16.75	62	13.63	139	17.99
Harmon	38	22.95	58	13.78	96	16.70
Harper	62	22.59	32	12.78	94	18.62
Haskell	59	22.36	61	15.05	120	19.11
Hughes	89	21.89	106	20.91	195	22.02

Table 94 (continued)

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Jackson	263	21.69	42	11.61	305	16.01
Jefferson	66	21.41	47	13.86	113	19.17
Johnston	45	21.4	50	16.32	95	19.18
Kay	591	19.74	83	15.73	674	19.6
Kingfisher	154	25.68	57	17.85	211	23.63
Kiowa	92	19.32	67	12.86	159	16.57
Latimer	52	21.63	68	14.72	120	17.64
LeFlore	108	17.98	47	14.99	155	17.10
Lincoln	170	18.54	196	15.51	366	17.02
Logan	134	19.71	93	15.63	227	18.01
Love	43	21.25	42	15.62	85	18.60
McClain	158	18.35	82	15.53	240	17.35
McCurtain	40	22.14	61	17.62	101	18.69
McIntosh	50	18.72	63	16.11	113	17.22
Major	87	21.03	50	16.45	137	19.22
Marshall	106	19.17	37	18.16	143	18.68
Mayes	215	18.42	93	15.36	309	17.51
Murray	123	21.76	36	22.57	159	21.84
Muskogee	561	24.04	110	21.22	671	23.55
Noble	102	19.72	72	16.91	174	18.39
Nowata	104	26.89	107	20.42	211	23.63
Okfuskee	69	21.79	104	19.89	173	20.81
Oklahoma	3,445	22.14	46	10.97*	3,491	22.00
Okmulgee	365	22.93	103	19.82	468	22.18
Osage	235	23.85	55	19.90	290	23.04
Ottawa	315	23.36	84	19.80	399	22.57
Pawnee	105	19.06	78	19.30	183	19.13
Payne	484	20.50	81	15.76	565	19.65
Pittsburg	346	17.91	43	14.92	389	17.55
Pontotoc	291	22.10	86	20.87	377	21.67
Pottawatomie	323	17.21	85	19.25	408	17.55
Pushmataha	25	26.47	46	24.12	71	25.05
Roger Mills	30	15.20	45	13.53	75	14.26

Table 94 (continued)

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Rogers	232	22.28	146	18.82	378	21.02
Seminole	165	21.66	124	19.69	289	20.86
Sequoyah	71	24.22	56	23.28	127	24.07
Stephens	323	20.87	82	18.85	405	20.50
Texas	150	21.22	52	13.93	202	19.19
Tillman	95	20.35	72	12.91	167	17.21
Tulsa	3,378	27.37	91	21.23	3,469	27.21
Wagoner	184	21.92	89	14.02	273	19.23
Washington	825	23.37	62	19.60	887	23.09
Washita	94	18.32	72	16.72	166	17.73
Woods	128	19.08	56	12.87	184	17.10
Woodward	226	21.83	31	12.86	257	20.74
STATE OF OKLAHOMA	23,371	21.94	5,539	16.82	28,910	20.75

Source: Ad Valorem Division, Oklahoma Tax Commission, mimeographed.

*Not enough tracts, large enough and sufficiently removed from urban influence, to be truly indicative of the rural central tendency.

aged less than 20 per cent in 27 counties and 25 per cent or more in only six counties (including Coal County). The urban property assessment-sales ratio figure for the entire state in Oklahoma during 1964-1966 averaged only 21.94 per cent of sales value (see Table 94).

As low as the urban assessment-sales ratio figures were, those for rural property generally were lower. Assessment-sales ratios for rural property in Oklahoma ranged from 11.61 per cent in Jackson County to a high of 24.12 per cent in Pushmataha County. Twenty-five counties[5] had sales-assessment ratios averaging less than 15.00 per cent, while only 10 counties had rural property assessed at levels greater than 20 per cent of sales value. The average for the entire state was 16.82 per cent.

Average assessment-sales ratios for all real property in the counties ranged from a low of 14.26 per cent in Roger Mills County to a high of 25.05 per cent in Pushmataha County. A total of 49 counties assessed all real property in the county at values averaging less than 20 per cent of sales value. For the entire state, the assessment-sales ratio for all property averaged 20.75 per cent.

The problem of underassessment of property is by no means unique to the state of Oklahoma. During a six-month period in 1961, for example, the U. S. Bureau of the Census undertook, on a sampling basis, an assessment-sales ratio study in each of the 50 states of the union in a manner quite similar to that employed by the Oklahoma Tax Commission's

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[5]Oklahoma County's rural property assessment-sales ratio figure was less than 15 per cent, but due to the relative small size of the sample was not considered to be accurate.

Ad Valorem Division, with the survey limited to sales of real estate listed on local tax rolls.[6]

The nationwide average in 1961 was 29.5 per cent of the sales value, with 5.6 per cent in South Carolina as the lowest, and 65.5 per cent in Rhode Island as the highest. Oklahoma was credited with a ratio of 19.3 per cent, which was lower than 32 other states. If the results of the studies of assessment-sales ratios conducted by the Bureau of the Census in 1961 and by the Oklahoma Tax Commission in 1966 are comparable, clearly the problem of underassessment of real property in Oklahoma failed to ameliorate over the period 1961-1966.

In 1967, the Oklahoma State Legislature initiated legislation designed to promote some improvement in the assessment of property in Oklahoma. Senate Bill No. 141, which became a law May 22, 1967, requires that a comprehensive program of revaluation of all taxable property within each county commence as soon as possible, and in any case, it must commence no later than January 1, 1969. Each county assessor must pursue this task with sufficient vigor to insure the completion of revaluation of all taxable property within the county before January 1, 1972. After the complete revaluation program is completed, each assessor must maintain a continuously active and systematic program of revaluation, and must establish a revaluation schedule which will result in revaluation of all taxable property within the county at least once every 5 years. In addition, the 1967 law requires that real property being valued must be physically inspected in such a manner as will provide

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[6]U. S. Bureau of the Census, Taxable Property Values, 1962 Census of Governments, Vol. II.

adequate data from which to make accurate valuations.

The general effect of Senate Bill 141 should be a more accurate valuation of property in Oklahoma, thus resulting, in most cases, in a larger tax base for most taxing authorities. The following section of this study summarizes estimations of the potential increase in 1966 property tax revenue for counties, school districts, and municipalities in Oklahoma based on the assumptions that: (1) all property is assessed at values closely approximating 35 per cent of the market or sales value of the property; (2) the homestead exemption is eliminated; and (3) the same rates of taxation as were levied by each of the three types of local government in 1966 are levied in each county.

In order to estimate the gross valuation of property (both total property and urban property) in 1966, if that property had been assessed at maximum limits of 35 per cent of sales value, the actual gross valuation of property in 1966 was multiplied by the maximum allowable valuation (35 per cent) divided by the average assessment-sales ratio for the appropriate county. This procedure was followed for both urban property and all property in the county. For example, the gross valuation of all property in Adair County in 1966 was $8,418,970, and the assessment-sales ratio averaged 21.28 per cent. To estimate the gross valuation if assessed at a value equivalent to 35 per cent of sales value, the actual gross valuation--$8,418,970--was multiplied by the ratio 35.00/21.28, thus yielding the estimated gross valuation of $13,470,352 (see Table 95).

After the gross valuation was estimated for assessments at 35 per cent of sales values, the average 1966 county-wide tax rates for coun-

Table 95

Estimated Gross Assessed Value of Real and Personal Property of County in Oklahoma for Assessment at Maximum Constitutional Limit, 1966

County	1966 Gross Valuation of All Property[a]	Assessment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit	1966 Gross Valuation of Urban Property[c]	Assessment-Sales	Estimated Gross Valuation at Maximum Limit
Adair	$ 8,418,970	21.28	$ 13,470,352	$ 2,100,709	22.46	$ 3,277,106
Alfalfa	29,162,854	21.79	46,660,566	17,194,276	24.82	24,243,929
Atoka	9,079,480	15.47	20,519,625	1,766,071	16.64	3,708,749
Beaver	40,165,166	17.24	81,535,287	2,598,594	23.80	3,845,919
Beckham	27,396,219	19.57	48,765,270	10,907,928	21.13	18,107,160
Blaine	22,544,417	19.07	41,356,283	5,810,823	20.53	9,878,399
Bryan	21,165,179	18.92	38,943,929	8,150,666	19.74	14,426,679
Caddo	44,267,344	17.30	89,420,035	10,697,511	19.09	19,576,445
Canadian	59,634,243	18.07	115,094,088	42,854,419	18.00	83,137,573
Carter	44,610,090	22.39	69,591,740	23,793,570	23.49	35,452,419
Cherokee	12,915,732	20.14	22,344,216	4,423,819	20.59	7,520,492
Choctaw	11,305,975	19.38	20,350,755	3,956,881	21.49	6,449,716
Cimarron	19,406,669	18.86	35,902,338	2,795,098	27.65	3,549,774
Cleveland	68,232,498	22.29	107,125,022	52,877,054	22.70	81,430,663
Coal	7,040,490	22.65	10,842,355	1,350,233	28.00	1,687,791
Comanche	70,156,989	17.70	138,209,268	56,193,987	17.88	110,140,215
Cotton	11,073,660	16.62	23,254,686	n.a.	18.29	n.a.
Craig	19,446,399	19.87	34,225,662	5,287,199	20.96	8,829,622
Creek	47,936,958	21.82	76,699,133	18,745,722	22.72	28,868,412
Custer	32,636,613	17.35	65,599,592	n.a.	18.60	n.a.

Table 95 (continued)

County	1966 Gross Valuation of All Property[a]	Assessment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit	1966 Gross Valuation of Urban Property[c]	Assessment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit
Delaware	$ 115,788,147	18.44	$ 29,839,598	$ 1,781,342	17.42	$ 3,580,497
Dewey	14,275,477	18.82	26,409,632	1,347,679	22.62	2,088,902
Ellis	14,938,976	16.81	31,073,070	2,745,656	19.55	4,914,724
Garfield	100,489,708	18.18	192,940,239	53,025,320	18.15	102,338,868
Garvin	39,537,934	20.59	66,819,108	13,633,927	21.54	22,086,962
Grady	41,089,388	21.22	67,386,596	14,663,265	22.36	22,874,693
Grant	29,865,255	17.40	60,029,163	4,039,193	21.89	6,462,709
Greer	12,193,712	17.99	23,461,801	4,027,831	21.69	6,484,808
Harmon	8,920,065	16.70	18,644,817	2,680,296	21.41	4,368,882
Harper	17,915,145	18.62	33,501,321	2,315,814	21.42	3,774,777
Haskell	9,346,698	19.11	17,104,457	1,779,856	23.30	2,669,784
Hughes	16,949,333	22.02	26,779,946	5,278,588	22.96	8,023,454
Jackson	31,138,832	16.01	67,882,654	12,880,944	16.75	26,921,173
Jefferson	12,809,801	19.17	23,313,838	1,702,303	22.98	2,587,501
Johnston	8,219,530	19.18	14,959,545	1,597,829	22.59	2,476,635
Kay	95,790,683	19.16	174,666,643	n.a.	19.74	n.a.
Kingfisher	34,699,146	23.63	51,354,736	8,276,675	25.68	11,256,278
Kiowa	26,110,684	16.57	55,093,543	6,266,271	19.32	11,341,951
Latimer	7,996,032	17.64	15,832,144	1,868,231	21.63	3,026,534
Leflore	22,255,854	17.10	45,605,942	6,292,474	17.98	12,270,324
Lincoln	26,998,277	17.02	55,346,468	2,760,929	15.51	6,239,699
Logan	30,174,600	18.01	58,538,724	9,128,017	15.63	20,446,758

Table 95 (continued)

County	1966 Gross Valuation of All Property[a]	Assessment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit	1966 Gross Valuation of Urban Property[c]	Assessment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit
Love	$ 8,263,320	18.60	$ 15,535,042	$ 1,300,922	15.62	$ 2,014,065
McClain	17,765,994	17.35	35,709,648	n.a.	15.53	n.a.
McCurtain	18,862,365	18.79	35,083,999	n.a.	17.62	n.a.
McIntosh	10,136,528	17.22	20,577,152	3,285,361	18.72	6,143,625
Major	19,031,602	19.22	34,637,516	3,465,589	21.03	5,752,878
Marshall	8,425,247	18.68	15,755,212	2,610,892	19.17	4,751,823
Mayes	23,587,225	17.51	47,174,450	6,025,660	18.42	11,448,754
Murray	15,237,862	21.84	24,380,579	4,844,082	21.76	7,798,972
Muskogee	72,827,119	23.55	107,784,136	41,973,691	24.04	60,861,852
Noble	22,730,762	18.39	43,188,449	5,703,908	19.72	10,095,917
Nowata	13,728,578	23.63	20,318,295	3,093,751	26.89	4,021,876
Okfuskee	15,215,755	20.81	25,562,468	n.a.	21.79	n.a.
Oklahoma	712,560,526	22.00	1,132,971,236	538,002,245	22.14	850,075,147
Okmulgee	34,816,081	22.18	54,661,247	15,890,002	22.93	24,311,703
Osage	52,328,062	23.04	79,015,374	8,827,228	23.85	12,976,025
Ottawa	33,376,058	22.57	51,732,890	18,437,387	23.36	27,656,080
Pawnee	14,074,613	19.13	25,756,542	3,239,180	19.06	5,960,091
Payne	49,942,767	19.65	88,898,125	24,483,361	20.50	41,866,546
Pittsburg	30,025,173	17.55	59,750,094	15,394,534	17.91	30,019,341
Pontotoc	34,582,285	21.67	55,677,479	15,087,907	22.10	23,838,893
Pottawatomie	36,224,081	17.55	72,085,921	18,162,440	17.21	36,869,753
Pushmataha	9,885,720	25.05	13,840,008	267,832	26.47	353,538
Roger Mills	9,449,595	14.26	13,151,508	791,384	15.20	1,820,183

Table 95 (continued)

County	1966 Gross Valuation of All Property[a]	Assess-ment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit[d]	1966 Gross Valuation of Urban Property[c]	Assess-ment-Sales Ratio[b]	Estimated Gross Valuation at Maximum Limit
Rogers	$ 40,596,530	21.02	$ 67,796,205	$ 6,771,318	22.28	$ 10,630,969
Seminole	23,710,601	20.86	39,833,810	8,740,060	21.66	14,158,897
Sequoyah	12,924,827	24.07	18,740,999	2,408,389	24.22	3,468,080
Stephens	48,308,538	20.50	82,607,600	23,683,857	20.87	39,788,880
Texas	51,558,285	19.19	93,836,079	12,299,925	21.22	20,294,876
Tillman	24,383,675	17.21	49,498,860	7,094,209	20.35	12,202,039
Tulsa	656,890,404	27.21	847,388,621	493,599,308	27.37	631,807,114
Wagner	17,849,106	19.23	32,485,373	3,921,922	21.92	6,276,075
Washington	69,699,234	23.09	105,942,836	47,539,877	23.37	71,309,815
Washita	24,990,660	17.73	49,231,600	661,604	18.32	1,263,664
Woods	29,718,204	17.10	60,922,318	8,412,104	19.08	15,478,271
Woodward	33,286,116	20.74	56,253,536	14,263,039	21.83	22,821,862

Source: [a]Oklahoma Tax Commission, Ad Valorem Division.

[b]Ibid.

[c]Calculated by author from tax levy sheets files with the State Board of Equalization, State Capitol, Oklahoma City.

[d]Calculated by multiplying the actual gross valuation by the quotient of 35.00 (maximum percentage of real sales value of property allowed for assessment purposes) divided by the assessment-sales ratio for the respective county.

Table 96

Potential Revenue from Property Taxes for Counties and School Districts by County in Oklahoma, 1966, Through Assessment of Property at 35 Per Cent of Sales Value and Elimination of the Homestead Exemption

County	Estimated Valuation of Property if Assessed at 35 Per Cent of Sales Price	1966 County Tax Levy (mills per dollar)	Potential 1966 County	1966 Average School District Tax Levy (mills per dollar)	Potential 1966 School District Revenue
Adair	$ 13,470,352	15.75	$ 212,158	28.28	$ 380,942
Alfalfa	46,660,566	12.15	688,426	27.33	1,275,233
Atoka	20,519,625	19.80	406,289	22.42	460,050
Beaver	81,535,287	13.12	1,069,743	22.09	1,801,114
Beckham	48,765,270	12.75	621,757	29.57	1,441,989
Blaine	41,256,283	15.50	639,472	32.11	1,324,739
Bryan	38,943,929	17.30	673,730	29.07	1,132,100
Caddo	89,420,035	13.40	1,198,228	26.10	2,333,863
Canadian	115,094,088	11.80	1,358,110	24.02	2,764,560
Carter	69,591,740	15.00	1,043,876	28.92	2,012,593
Cherokee	22,344,216	15.50	346,335	25.68	573,799
Choctaw	20,350,755	19.20	390,734	28.28	575,519
Cimarron	35,902,338	6.60	236,955	25.86	928,434
Cleveland	107,125,022	18.41	1,972,172	34.08	3,650,821
Coal	10,842,355	14.00	151,793	26.40	286,238
Comanche	138,209,268	12.88	1,780,135	27.78	3,839,453
Cotton	23,254,686	14.00	325,566	24.26	564,159
Craig	34,225,662	12.74	436,035	31.05	1,062,707
Creek	76,699,133	14.00	1,073,788	28.15	2,159,081
Custer	65,599,592	12.50	819,995	29.12	1,910,260

Table 96 (continued)

County	Estimated Valuation of Property if Assessed at 35 Per Cent of Sales Price	1966 County Tax Levy (mills per dollar)	Potential 1966 County	1966 Average School District Tax Levy (mills per dollar)	Potential 1966 School District Revenue
Delaware	$ 29,839,598	11.91	$ 355,390	24.29	$ 724,804
Dewey	26,409,632	14.00	369,735	31.99	844,844
Ellis	31,073,070	9.00	279,658	28.12	873,775
Garfield	192,940,239	12.50	2,411,753	30.03	5,793,995
Garvin	66,819,108	14.00	935,468	29.04	1,940,427
Grady	67,386,596	15.64	1,053,926	28.04	1,889,520
Grant	60,029,163	12.00	720,350	23.87	1,432,896
Greer	23,461,801	14.00	328,465	26.27	616,342
Harmon	18,644,817	16.67	310,809	26.80	499,681
Harper	33,501,321	12.00	402,016	32.30	1,078.742
Haskell	17,104,457	19.32	330,458	26.84	459,084
Hughes	26,779,946	17.53	469,452	28.46	762,157
Jackson	67,882,564	16.40	1,113,276	29.16	1,979,458
Jefferson	23,313,838	14.90	674,469	28.93	674,469
Johnston	14,959,545	17.75	265,532	31.38	469,431
Kay	174,666,643	14.00	2,445,333	27.50	4,803,333
Kingfisher	51,354,736	12.95	665,044	31.91	1,638,730
Kiowa	55,093,543	13.80	760,291	29.85	1,644,542
Latimer	15,832,144	13.60	215,317	30.68	485,730
Leflore	45,605,942	15.55	709,172	30.10	1,372,739
Lincoln	55,346,468	19.00	1,051,583	29.93	1,656,520
Logan	58,538,724	13.00	761,003	26.55	1,554,203

Table 96 (continued)

County	Estimated Valuation of Property if Assessed at 35 Per Cent of Sales Price	1966 County Tax Levy (mills per dollar)	Potential 1966 County	1966 Average School District Tax Levy (mills per dollar)	Potential 1966 School District Revenue
Love	$ 15,535,042	21.50	$ 334,003	27.54	$ 427,835
McClain	35,709,648	16.50	589,209	25.05	894,527
McCurtain	35,083,999	16.50	578,886	27.78	974,633
McIntosh	20,577,152	15.50	318,946	27.84	572,868
Major	34,637,516	13.85	479,730	20.39	706,259
Marshall	15,755,212	18.36	289,266	28.11	442,479
Mayes	47,174,450	14.50	684,030	26.02	1,227,479
Murray	24,380,579	17.95	437,631	29.24	712,888
Muskogee	107,784,136	16.74	1,804,306	27.78	2,994,243
Noble	43,188,448	13.75	593,841	31.24	1,349,207
Nowara	20,318,295	14.00	284,456	28.92	587,605
Okfuskee	25,562,468	14.00	357,874	30.70	784,768
Oklahoma	1,132,971,236	18.17	20,620,076	27.83	31,496,600
Okmulgee	54,661,247	17.60	962,038	30.65	1,675,367
Osage	79,015,374	13.50	1,066,708	41.58	3,285,459
Ottawa	51,732,890	10.25	530,262	28.54	1,476,457
Pawnee	25,756,542	14.00	360,592	30,96	797,422
Payne	88,898,125	14.00	1,244,574	26.83	2,385,137
Pittsburg	59,750,094	17.40	1,039,652	28.62	1,710,048
Pontotoc	55,677,479	16.85	938,166	30.84	1,717,093
Pottawatomie	72,085,921	23.07	1,663,022	34.25	2,468,943

Table 96 (continued)

County	Estimated Valuation of Property if Assessed at 35 Per Cent of Sales Price --1966[a]	1966 County Tax Levy (mills per dollar)	Potential 1966 County	1966 Average School District Tax Levy (mills per dollar)	Potential 1966 School District Revenue
Pushmataha	$ 13,840,008	15.08	$ 208,707	29.79	$ 412,294
Roger Mills	23,151,508	21.20	490,812	18.64	431,544
Rogers	67,796,205	15.35	1,040,672	28.18	1,910,497
Seminole	39,833,810	16.18	644,511	32.21	1,283,047
Sequoyah	18,740,999	24.89	466,463	28.59	535,805
Stephens	82,607,600	13.60	1,123,463	28.73	2,373,316
Texas	93,836,079	11.10	1,041,580	26.34	2,471,642
Tillman	49,498,860	15.90	787,032	26.04	1,288,950
Tulsa	847,388,621	16.75	14,236,128	30.40	25,760,614
Wagner	32,485,373	15.25	495,402	21.41	695,512
Washington	105,942,836	14.58	1,544,646	31.37	3,323,427
Washita	49,231,600	14.00	689,242	23.84	1,173,681
Woods	60,922,318	13.95	849,866	29.65	1,806,347
Woodward	56,253,536	14.00	787,550	25.60	1,440,090

Source: [a]Table 95.

[b]Potential revenue estimated by multiplying the tax levy times the estimated valuation.

Table 97

Potential Property Tax Revenue for Municipalities by County in Oklahoma, 1966, Through Assessment of Property at 35 Per Cent of Sales Value and Elimination of the Homestead Exemption

County	Estimated Valuation of Municipal Property if Assessed at 35 Per Cent of Sales Value[a]	1966 Average Municipal Tax Levy (mills per dollar)[b]	Potential Municipal Revenue in 1966 from Property Tax[c]
Adair	$ 3,277,106	17.44	$ 57,153
Alfalfa	24,243,929	15.79	382,811
Atoka	3,708,749	14.50	53,777
Beaver	3,845,919	19.07	34,882
Beckham	18,107,160	18.91	342,406
Blaine	9,878,399	16.60	163,981
Bryan	14,426,679	4.26	61,458
Caddo	19,576,455	15.22	297,953
Canadian	83,137,573	22.82	1,897,199
Carter	35,452,419	26.74	947,998
Cherokee	7,520,492	10.00	75,205
Choctaw	6,449,716	20.26	130,671
Cimarron	3,549,774	7.46	26,481
Cleveland	81,430,663	13.61	1,108,271
Coal	1,687,791	11.00	18,566
Comanche	110,140,215	36.83	4,056,464
Cotton	n.a.	-----	---------
Craig	8,829,622	6.31	55,715
Creek	28,868,412	19.75	570,151
Custer	n.a.	-----	-------

Table 97 (continued)

County	Estimated Valuation of Municipal Property if Assessed at 35 Per Cent of Sales Value[a]	1966 Average Municipal Tax Levy (mills per dollar)[b]	Potential Municipal Revenue in 1966 from Property Tax[c]
Delaware	$ 3,580,497	14.11	$ 50,521
Dewey	2,088,902	25.56	53,392
Ellis	4,914,724	4.50	22,116
Garfield	102,338,868	16.19	1,656,866
Garvin	22,086,962	15.92	351,624
Grady	22,874,693	27.65	632,485
Grant	6,462,709	17.92	115,812
Greer	6,484,808	73.24	474,947
Harmon	4,368,882	20.33	88,819
Harper	3,774,777	21.78	82,215
Haskell	2,669,784	13.40	35,775
Hughes	8,023,454	20.46	164,160
Jackson	26,921,173	14.98	403.279
Jefferson	2,587,501	29.62	76,642
Johnston	2,476,635	7.27	18,005
Kay	n.a.	-----	------
Kingfisher	11,256,278	16.78	188,880
Kiowa	11,341,951	23.92	271,299
Latimer	3,026,534	18.88	57,141
Loflore	12,270,324	13.03	159,882
Lincoln	6,239,699	21.44	133,779
Logan	20,446,758	13.32	272,351
Love	2,914,065	7.00	20,398

Table 97 (continued)

County	Estimated Valuation of Municipal Property if Assessed at 35 Per Cent of Sales Value[a]	1966 Average Municipal Tax Levy (mills per dollar)[b]	Potential Municipal Revenue in 1966 from Property Tax[c]
McClain	$ n.a.	-----	$ -------
McCurtain	n.a.	-----	-------
McIntosh	6,143,625	4.64	28,506
Major	5,572,878	19.40	111,606
Marshall	4,751,823	17.04	80,971
Mayes	11,448,754	16.39	187,645
Murray	7,798,972	9.00	70,191
Muskogee	60,861,852	18.07	1,099,774
Noble	10,095,917	14.77	149,117
Nowata	4,021,876	29.01	116,675
Okfuskee	n.a.	n.a.	-------
Oklahoma	850,075,147	24.45	20,784,337
Okmulgee	24,311,703	10.25	249,195
Osage	12,976,025	14.49	188,023
Ottawa	27,656,080	17.04	471,260
Pawnee	5,960,091	13.57	80,878
Payne	41,966,546	11.42	478,116
Pittsburg	30,019,341	13.94	418,470
Pontotoc	23,838,893	21.15	504,193
Pottawatomie	36,869,753	21.12	778,689
Pushmataha	353,538	12.50	4,419
Roger Mills	1,820,183	18.42	33,528

Table 97 (continued)

County	Estimated Valuation of Municipal Property if Assessed at 35 Per Cent of Sales Value[a]	1966 Average Municipal Tax Levy (mills per dollar)[b]	Potential Municipal Revenue in 1966 from Property Tax[c]
Rogers	$ 10,630,969	9.49	$ 100,888
Seminole	14,158,897	25.11	355,530
Sequoyah	3,468,080	33.23	115,244
Stephens	39,788,880	20.62	820,447
Texas	20,294,876	12.87	261,195
Tillman	12,202,039	9.31	113,601
Tulsa	847,388,621	16.28	10,285,820
Wagner	6,275,075	13.66	85,718
Washington	71,309,815	15.42	1,099,597
Washita	1,263,664	11.93	15,076
Woods	15,478,271	17.91	277,216
Woodward	22,820,962	16.89	385,444

Source: [a]Table 95.

[b]Table 93 data calculated for average levy.*

[c]Estimated by applying average tax levy to estimated valuation of property.

*The average municipal tax levy was calculated by dividing the total municipal revenue from the property tax in each county by the total net assessed valuation of municipal property in the respective county.

ties, school districts, and municipalities were applied to the appropriate estimated gross valuation. That is, the county levy and the average school district levy for the county each was applied to the estimated gross valuation of all property in the county, while the average school municipal levy for the county was applied to the gross valuation of all urban property in the county. In this manner, an estimate of the gross potential revenue for each of the three types of local governments was obtained, county by county. The potential increase in revenue for each type of government in each county was found by subtracting the actual revenue from the potential revenue for each type of government in each county, then summed for the entire state.

Potential Increases in Local Revenues

County government revenues in 1966 could have been increased through assessing the property at maximum assessed valuation and elimination of the homestead exemption in amounts ranging from $67,484 in Coal County to more than $9,000,000 in Oklahoma County. The county goverment in Tulsa County would have received an additional $4,477,041 had such provisions been in effect. Four other counties, excluding both Oklahoma and Tulsa Counties each would have received more than $1,000,000 in additional revenue. In most counties the potential increases in 1966 revenue fell within a range between $100,000 and $500,000, with only two counties--Coal and Pushmataha--having potential increases of less than $100,000. County revenue for all 77 counties would have been increased by approximately $45,287,632 in 1966 through the application of actual 1966 rates to a base representing the assessment of property at 35 per

cent of sales value, and the elimination of the homestead exemption (see Table 98).

School district revenue could have been increased by amounts ranging from $126,759 in Coal County to $14,569,093 in Oklahoma County. School districts in Tulsa County would have received an additional $8,000,000 while school districts in 18 other counties would have gained at least $1,000,000 in additional revenue. In 28 counties, the schools would have received revenue increases between $500,000 and $1,000,000. As a group, all school districts in Oklahoma would have received an additional $80,584,556 through the assessment of property at 35 per cent of sales value and the elimination of the homestead exemption (see Table 99).

Municipalities would also have enjoyed significant increases in revenues, though not of the magnitude of the potential increases in school district revenues or even county revenues. The range of potential increases in revenue of Oklahoma municipalities ran from a low of only $2,503 in Pushmataha County to $9,537,702 in Oklahoma County. The variation was rather astounding. On one hand, municipalities in 5 counties had potential revenue increases of less than $10,000, while on the other, municipalities in 4 counties, including Tulsa and Oklahoma, would have received more than $1,000,000 in additional revenue. These latter four counties--Oklahoma, Tulsa, Canadian, and Commanche--together accounted for well over 50 per cent of the total potential increase for all municipalities in Oklahoma. More than half of the counties included in the study would have received less than $100,000 in additional municipal revenue. For the entire state the potential increase in municipal re-

Table 98

Potential Increase in County Revenue by County in Oklahoma for 1966 Through Assessment of Property at 35 Per Cent of Sales Value and Elimination of the Homestead Exemption

County	Actual 1966 County Revenue[a]	Potential 1966 County Revenue[b]	Potential Increase in 1966 County Revenue
Adair	$ 99,694	$ 212,158	$ 112,464
Alfalfa	322,029	688,426	356,398
Atoka	151,004	406,289	255,285
Beaver	508,216	1,069,743	561,527
Beckham	305,270	621,757	316,487
Blaine	312,265	639,472	327,207
Bryan	295,756	673,730	377,974
Caddo	532,365	1,198,228	665,863
Canadian	633,185	1,358,110	724,925
Carter	561,172	1,043,876	482,704
Cherokee	152,077	346,335	194,258
Choctaw	165,599	390,734	225,135
Cimarron	122,754	236,955	114,201
Cleveland	1,972,172	940,617	
Coal	84,309	151,793	67,484
Comanche	724,485	1,780,135	1,055,650
Cotten	137,341	325,566	188,225
Craig	209,662	436,035	226,373
Creek	562,419	1,073,788	511,369
Custer	360,945	819,995	459,050
Delaware	154,956	355,390	200,434
Dewey	182,516	369,735	187,219
Ellis	122,594	279,658	157,064
Garfield	1,109,570	2,411,753	2,302,183
Garvin	480,704	935,468	454,764
Grady	550,022	1,053,926	503,904
Grant	336,760	720,350	383,590
Greer	146,040	328,465	182,425
Harmon	129,999	310,809	180,810
Harper	201,602	402,016	200,414

Table 98 (continued)

County	Actual 1966 County Revenue[a]	Potential 1966 County Revenue[b]	Potential Increase in 1966 County Revenue
Haskell	$ 146,113	$ 330,458	$ 184,345
Hughes	246,976	469,452	222,476
Jackson	439,795	1,113,276	673,481
Jefferson	170,456	674,469	504,013
Johnston	123,296	265,532	142,336
Kay	1,193,705	2,445,333	1,251,628
Kingfisher	417,150	665,044	247,894
Kiowa	323,193	760,291	437,098
Latimer	91,320	215,317	123,997
Laflore	272,228	709,172	436,944
Lincoln	443,687	1,051,583	607,896
Logan	347,174	761,003	413,829
Love	156,148	334,003	177,855
Major	259,788	589,209	329,421
Marshall	129,336	578,886	449,550
Mayes	281,403	684,030	402,627
McClain	253,568	589,209	335,641
McCurtain	247,645	578,886	331,241
McIntosh	128,589	318,946	190,357
Murray	238,814	437,631	198,817
Muskogee	1,029,651	1,804,306	774,655
Noble	283,477	593,841	310,364
Nowata	160,722	284,456	123,734
Okfuskee	188,791	357,874	169,083
Oklahoma	11,071,960	20,620,076	9,548,116
Okmulgee	499,040	962,038	462,998
Osage	630,755	1,066,708	435,953
Ottawa	286,220	530,262	244,042
Pawnee	169,574	360,592	191,018
Payne	591,268	1,244,573	653,306
Pittsburg	415,214	1,039,652	624,438
Pontotoc	489,564	938,166	448,602
Pottawatomie	645,882	1,663,022	1,017,140
Pushmataha	120,983	208,707	87,724
Roger Mills	178,568	490,812	312,244

Table 98 (continued)

County	Actual 1966 County Revenue[a]	Potential 1966 County Revenue[b]	Potentoal Increase in 1966 County Revenue
Rogers	$ 551,703	$ 1,040,672	$ 488,969
Seminole	311,973	644,511	332,538
Sequoyah	223,768	466,463	242,695
Stephens	539,593	1,123,463	583,870
Texas	541,623	1,041,580	499,957
Tillman	347,419	787,032	439,613
Tulsa	9,759,087	14,236,128	4,477,041
Wagoner	221,505	495,402	273,897
Washington	874,775	1,544,646	669,871
Washita	314,053	689,242	375,189
Woods	378,748	849,866	471,118
Woodward	425,542	787,550	362,008
Total Potential Increase in 1966 County Revenue . .			$45,287,632

Source: [a]Calculated by applying county levy to net assessed valuation of property.

[b]Table 96.

Table 99

Potential Increase in School District Revenue by County in Oklahoma for 1966 Through Assessment of Property at 35 Per Cent of Sales Value and Elimination of the Homestead Exemption

County	Actual 1966 School District Revenue[a]	Potential 1966 School District Revenue[b]	Potential Increase in 1966 School District Revenue
Adair	$ 179,180	$ 380,942	$ 201,762
Alfalfa	740,373	1,275,233	534,860
Atoka	170,557	460,050	289,493
Beaver	855,509	1,801,114	945,605
Beckham	708,038	1,441,989	733,951
Blaine	646,585	1,324,739	678,154
Bryan	497,449	1,132,100	634,651
Caddo	1,037,344	2,333,863	1,296,519
Canadian	1,288,521	2,764,560	1,476,039
Carter	1,082,339	2,012,593	930,254
Cherokee	252,303	573,799	321,496
Choctaw	243,722	575,519	331,797
Cimarron	481,380	928,434	447,054
Cleveland	1,910,069	3,650,821	1,740,752
Coal	159,479	286,238	126,759
Comanche	1,562,565	3,839,453	2,276,888
Cotton	238,341	564,159	325,818
Craig	511,083	1,062,707	551,624
Creek	1,131,351	2,159,081	1,027,730
Custer	840,574	1,910,260	1,069,686
Delaware	315,900	724,804	408,904
Dewey	416,741	844,844	428,103
Ellis	382,799	873,775	490,976
Garfield	2,665,607	5,793,995	3,128,388
Garvin	997,084	1,940,427	943,343
Grady	985,633	1,889,520	903,887
Grant	669,885	1,432,896	763,011
Greer	273,757	616,342	342,585
Harmon	209,202	499,681	290,479
Harper	541,201	1,078,742	537,541

Table 99 (continued)

County	Actual 1966 School District Revenue[a]	Potential 1966 School District Revenue[b]	Potential Increase in 1966 School District Revenue
Haskel	$ 203,030	$ 459,084	$ 256,054
Hughes	401,042	762,157	361,115
Jackson	780,847	1,979,458	1,198,611
Jefferson	330,842	674,469	343,627
Johnston	218,175	469,431	251,256
Kay	2,344,564	4,803,333	2,458,769
Kingfisher	1,028,283	1,638,730	610,447
Kiowa	699,373	1,644,542	945,169
Latimer	205,580	485,730	280,150
Leflore	527,286	1,372,739	845,453
Lincoln	699,372	1,656,520	957,148
Logan	708,870	1,554,203	845,333
Love	200,087	427,835	227,748
Major	352,661	706,259	353,598
Marshall	197,569	442,879	245,310
Mayes	504,639	1,227,479	722,840
McClain	385,004	894,527	509,523
McCurtain	417,008	974,633	557,625
McIntosh	230,851	572,868	342,017
Murray	388,937	712,888	323,951
Muskogee	1,400,883	2,994,243	1,593,360
Noble	644,397	1,349,207	704,810
Noweta	331,748	587,605	255,857
Okfuskee	414,048	784,768	370,720
Oklahoma	16,927,507	31,496,600	14,569,093
Okmulgee	869,181	1,675,367	806,186
Osage	1,178,694	3,285,459	2,106,765
Ottawa	797,060	1,476,457	679,397
Pawnee	374,798	797,422	422,624
Payne	1,132,812	2,385,137	1,252,325
Pittsburg	682,811	1,710,048	1,027,237
Pontotoc	895,763	1,717,093	821,330
Pottawatomie	959,413	2,468,943	1,509,530
Pushmataha	239,074	412,294	173,220
Roger Mills	157,056	431,544	274,488

Table 99 (continued)

County	Actual 1966 School District Revenue[a]	Potential 1966 School District Revenue[b]	Potential Increase in 1966 School District Revenue
Rogers	$ 1,012,636	$ 1,910,498	$ 897,861
Seminole	620,979	1,283,047	662,068
Sequoyah	257,038	535,805	278,767
Stephens	1,140,408	2,373,316	1,232,908
Texas	1,287,371	2,471,642	1,184,271
Tillman	569,184	1,288,950	719,766
Tulsa	17,660,122	25,760,614	8,100,492
Wagoner	310,878	695,512	384,634
Washington	1,882,356	3,323,427	1,441,071
Washita	534,884	1,173,681	638,797
Woods	805,352	1,806,347	1,000,995
Woodward	777,959	1,440,090	662,131
Total Increase in School District Revenue			$80,584,556

Source: [a]State Board of Education.

[b]Table 96.

venue for 1966 amounted to some $26,378,872 (see Table 100).

Summary

Through the process of (1) assessing property in Oklahoma at 35 per cent of sales value; (2) eliminating the homestead exemption; and (3) assuming that the same rates of taxation were applied in 1966 by the three types of local governments; county governments in Oklahoma would have received $45,287,632 more revenue; school district revenue in Oklahoma would have been increased by $80,584,556; and the municipalities of the state would have been recipients of $26,378,872 in additional revenue. The total potential revenue increase for all three types of governments resulting from the changes suggested above was estimated to be approximately $152,251,060.

With reference to Table 3 in Chapter II, the Oklahoma state government in 1965 allocated $37,078,000 to counties, $14,224,000 to municipalities, and $93,203,000 to school districts. Total intergovernmental expenditures that year by the state government to local governments amounted to $145,438,000. The estimated potential increase in 1966 property tax revenue from the changes mentioned above was greater than the total amount of state aid to local governments in 1965. Apparently, a large part of the state funds presently being used to supplement local revenues could be directed to other uses through the suggested property tax revisions.

Table 100

Potential Increase in Municipality Revenue by County in Oklahoma for 1966 Through Assessment of Property at 35 Per Cent of Sales Value and Elimination of the Homestead Exemption

County	Actual 1966 Municipality Revenue[a]	Potential 1966 Municipality Revenue[b]	Potential Increase in 1966 Municipality Revenue
Adair	$ 23,650	$ 57,153	$ 33,503
Alfalfa	206,684	382,811	176,127
Atoka	19,423	53,777	34,354
Beaver	18,326	34,882	16,556
Beckham	157,701	342,406	184,705
Blaine	70,903	163,981	93,078
Bryan	25,595	61,458	35,863
Caddo	119,577	297,953	178,376
Canadian	752,743	1,897,199	1,144,456
Carter	502,184	947,998	445,814
Cherokee	33,979	75,205	41,226
Choctaw	54,527	130,671	76,144
Cimarron	17,490	26,481	8,991
Cleveland	576,558	1,108,271	531,713
Coal	10,611	18,566	7,955
Comanche	1,608,216	4,056,464	2,448,248
Cotton	n.a	n.a.	n.a.
Craig	23,650	55,715	32,065
Creek	270,700	570,151	299,451
Custer	n.a.	n.a.	n.a.
Delaware	18,336	50,521	32,185
Dewey	31,146	53,392	22,246
Ellis	9,309	22,116	12,807
Garfield	692,080	1,656,866	964,786
Garvin	161,374	351,624	190,250
Grady	298,355	632,485	334,130
Grant	55,368	115,812	60,444
Greer	205,356	474,947	269,591
Harmon	39,108	88,819	49,711
Harper	34,958	82,215	47,257

Table 100 (continued)

County	Actual 1966 Municipality Revenue[a]	Potential 1966 Municipality Revenue[b]	Potential Increase in 1966 Municipality Revenue
Haskell	$ 17,124	$ 35,775	$ 18,651
Hughes	73,804	164,160	90,356
Jackson	193,498	403,279	209,781
Jefferson	38,624	76,642	38,018
Johnston	8,189	18,005	9,816
Kay	n.a.	n.a.	n.a.
Kingfisher	113,882	188,880	74,998
Kiowa	110,660	271,299	160,639
Latimer	25,138	57,141	32,003
Leflore	82,173	159,882	77,709
Lincoln	41,605	133,779	92,174
Logan	90,616	272,351	181,735
Love	6,513	20,398	13,885
Major	50,096	111,606	61,510
Marshall	31,677	80,971	49,294
Mayes	68,933	187,645	118,712
McClain	None	-------	-------
McCurtain	n.a.	n.a.	n.a.
McIntosh	11,414	28,506	17,092
Murray	31,455	70,191	38,736
Muskogee	605,507	1,099,774	494,267
Noble	62,914	149,117	86,203
Nowata	35,517	116,675	81,158
Okfuskee	n.a.	n.a.	n.a.
Oklahoma	11,246,635	20,784,337	9,537,702
Okmulgee	118,400	249,195	130,795
Osage	94,212	188,023	93,811
Ottawa	61,919	471,260	409,341
Pawnee	30,775	80,878	50,103
Payne	236,936	478,116	241,180
Pittsburg	155,988	418,470	262,482
Pontotoc	244,343	504,193	259,850
Pottawatomie	276,512	778,689	502,177
Pushmataha	1,916	4,419	2,503
Roger Mills	10,408	33,528	23,120

Table 100 (continued)

County	Actual 1966 Municipality Revenue[a]	Potential 1966 Municipality Revenue[b]	Potential Increase in 1966 Municipality Revenue
Rogers	$ 49,066	$ 100,888	$ 51,822
Seminole	163,652	355,530	191,878
Sequoyah	54,672	115,244	60,572
Stephens	354,190	820,447	466,257
Texas	131,413	261,195	129,792
Tillman	49,491	113,601	64,110
Tulsa	6,987,417	10,285,820	3,298,403
Wagoner	35,841	85,718	49,877
Washington	617,640	1,099,597	481,957
Washita	6,159	15,076	8,917
Woods	116,804	277,216	160,412
Woodward	204,382	385,444	181,062
Total Potential Increase in Municipality Revenue . .			$26,378,872

Source: [a]Calculated from data from levy sheets filed with the State Board of Equalization--tax levy times the net assessed value of property within municipality.

[b]Table 97.

Appendix

Partial bibliography of journal articles involving the problems of property tax assessment and administration:

National Tax Journal, Vol. XIX, No. 4, December 1966, E. L. David and Roger Skurski, "Property Tax Assessment and Absentee Owners," p. 421.

Tax Policy. (Princeton, New Jersey: Tax Institute of America) Vol. XXXIII, Nos. 7-8, July-August, 1966, C. Lowell Harriss, "Property Tax Reform: Is This Where We Came In?"

Vol. XXXIII, No. 12, December 1966, "Professionalization of the Assessor." (A group of 11 articles)

Vol. XXXIII, No. 11, November 1966, Mabel Walker, "The Increasing Importance of the Property Tax Assessor."

Vol. XXXI, No. 11, November 1964, Mabel Walker, "The County as the Assessing Unit."

Vol. XXXI, No. 2, February 1964, Advisory Commission on Intergovernmental Relations, "How States Can Strengthen the Property Tax."

Tax Review. Vol. XXV, No. 4, April, 1964, Archibald Woodruff, Jr., "The Property Tax: Some Urgent Problems."

CHAPTER VIII

SUMMARY AND RECOMMENDATIONS

Summary

In view of the substantial increases in the level of state expenditures in Oklahoma during recent years, and given the predictions of rising state expenditures generally throughout the nation, the probability that the demand for public services provided by the State of Oklahoma will rise in the future appears to be quite high. As the people of Oklahoma make demands upon the state government for public services in greater quantity and of improved quality, the State of Oklahoma, in turn, will have to make demands upon the people of the state for increased amounts of revenue needed to provide the services demanded.

In the search for sources of additional revenue, the state government will ultimately be faced with the prospect of financing increased levels of state government activity with additional tax revenue, that is, revenue over and above the normal increase in tax revenues expected from the increases in the bases of certain taxes, such as the sales taxes, due to expanded economic activity and population growth. In short, it is quite likely that Oklahoma will have to seriously consider obtaining needed additional revenue through the process of either:

(1)increasing the rates of some of the taxes already imposed by the state; (2)broadening the bases of some of the present taxes; or (3) adopting new taxes not being used currently by the State of Oklahoma.

If the people of Oklahoma, acting through their elected representatives, do make the decision to accept higher taxes in return for increased public services, and better quality public services, which taxes offer the greatest potential for significant increases in revenue through revision, with the limiting provision that changes in the taxes not place Oklahoma at a tax disadvantage with respect to the other regional states? In other words, how can Oklahoma obtain the additional tax revenue needed with the minimal repressive effect on the economic growth and development of the state?

The objective of this study, as stated in Chapter I, was to examine the tax structure of the State of Oklahoma in an attempt to determine which of the major taxes imposed by either Oklahoma or any of the other regional states offer the greatest potential for increasing revenue, without placing the state's economic development in jeopardy; and to estimate the amounts of additional revenue that would be available to the state through alternative changes in those taxes appearing to possess the above stated necessary potential. Emphasis throughout the study was upon revenue productivity, with very little attention paid to the problem of tax equity or to the incidence of the Oklahoma state tax burden. The following is a summary of the findings of the study, with a number of recommendations made by the author as a product of this study.

Current Sources of Oklahoma State Revenue

In Chapter II, the current (1965) sources of Oklahoma state revenue were surveyed in an attempt to determine which major taxes offer the greatest potential for revenue increases. Amounts of state revenue in 1965 produced by each source, as well as the percentage of total state revenue produced by each source, were compared with similar data for the other regional states: Arkansas, Louisiana, Texas, New Mexico, Colorado, Kansas and Missouri. The object was to find which of the major taxes were either being used lightly by Oklahoma, as compared to the use of the tax in other regional states, or not being used at all by Oklahoma, and to study each such tax for possible changes leading to significant increases in revenue without endangering Oklahoma's overall tax position with respect to the other regional states.

Total state revenue for Oklahoma rose from $329 million in 1955, to $673 million in 1965. For six of the eleven years of that time period, total state expenditures exceeded total state revenue. Total state revenue is comprised of general revenue, liquor store revenue, and insurance trust fund revenue. General revenue in 1965 accounted for 95.0 per cent of the total Oklahoma state revenue, with insurance trust fund revenue accounting for the remainder. Since Oklahoma has no state owned liquor stores, and insurance trust fund revenue cannot be used for general public expenditures, the sources of Oklahoma general revenue became the relevant objects of attention.

General revenue for states is derived from three major sources: taxes, intergovernmental revenue, and revenue from charges and miscel-

laneous sources. In 1955, Oklahoma received 66.8 per cent of total general revenue from taxes; 23.1 per cent from intergovernmental revenue; and 10.2 per cent from charges and miscellaneous sources. Tax revenue as a percentage of general revenue dropped to 55.9 per cent in 1965, while intergovernmental revenue rose to 30.1 per cent, and revenue from charges and miscellaneous sources contributed 14.0 per cent.

Total state tax revenue for Oklahoma in 1965 amounted to $357,571,000, about $147 million more than in 1955. The total increase in intergovernmental revenue and revenue from charges and miscellaneous sources together over the same time period amounted to $177 million, which explains the diminishing relative importance of tax revenue in the state's revenue structure. Most of the intergovernmental revenue for Oklahoma came from the federal government, and the increase between 1955 and 1965 was due to large increases in aid from the federal government. Revenue from charges came mostly from Oklahoma's state institutions of higher education, turnpikes, and state-operated hospitals.

States receive revenue from 8 major tax sources: general sales and gross receipts taxes; selective sales and gross receipts taxes; licenses; individual or personal income taxes; corporate income taxes; property taxes; death and gift taxes; and severance or gross production taxes. Oklahoma collects revenue from all of these taxes with the exception of the property tax. The Oklahoma Constitution prohibits the use of property or ad valorem tax revenue for state purposes. Revenue from the ad valorem tax is claimed by the local governments in Oklahoma.

In 1965, Oklahoma received $206,855,000 from total sales and gross receipts taxes; $58,855,000 from licenses; $26,484,000 from the individual

income tax; $17,984,000 from the corporate income tax; $9,810,000 from death and gift taxes; and $38,484,000 from the severance tax. Percentagewise, 57.9 per cent of the total state tax revenue for 1965 come from total sales and gross receipts taxes; 16.5 per cent came from licenses; 7.4 per cent came from the individual income tax; 4.8 per cent came from the corporate income tax; 2.7 per cent came from death and gift taxes; and 10.8 per cent came from the severance tax.

As indicated above, total sales and gross receipts taxes provided by far the largest portion of Oklahoma's 1965 tax revenue. Selective sales taxes contributed $137,657,000 of total sales and gross receipts taxes revenue, and the general sales tax contributed $69,198,000. Of the various selective sales taxes levied by Oklahoma, taxes on motor fuels produced $70,494,000; taxes on alcoholic beverages produced $13,970,000; and those on tobacco products produced $21,559,000.

The most important single source of license revenue for the State of Oklahoma in 1965 was licenses on motor vehicles, which contributed over $45 million in state revenue.

Comparison With Regional States

Upon comparing Oklahoma's state revenue structure, and amounts of revenue received from each source, with the revenue structures and amounts received by source for the other regional states, it was found that Oklahoma's total state revenue in 1965 was fourth largest in the group, as were also Oklahoma's general revenue, tax revenue, and intergovernmental revenue. Oklahoma's revenue from charges and miscellaneous sources for 1965 was the third highest for the group.

On a per capita basis, which eliminates the distorting effect different sizes of population create in using total revenue figures in making interstate comparisons, general revenue in 1965 for Oklahoma was the third largest in the group, with a per capita figure of $257.46, although Colorado was not far below. Oklahoma's per capita tax revenue figure--$144.01--was third highest; as were also Oklahoma's per capita intergovernmental revenue and revenue from charges and miscellaneous sources.

Comparisons of the percentage of general revenue produced by each of the three sources found Oklahoma ranked fifth highest in the regional group in terms of tax revenue as a percentage of general revenue; third highest for the percentage contributed by intergovernmental revenue; and tied for fourth highest for the percentage produced by revenue from charges and miscellaneous sources.

When total amounts of revenue in 1965 by type of tax were compared within the regional group of states, Oklahoma's general sales tax revenue was ranked sixth highest in the group, while selective sales tax revenue was third highest. Oklahoma also ranked third highest in license revenue and corporate income tax revenue (among only six states for the latter). Individual income tax revenue in Oklahoma ranked fourth highest, as did Oklahoma's severance tax revenue. Revenue from death and gift taxes in Oklahoma was the second highest of the group.

The percentage of total tax revenue produced by the general sales tax in Oklahoma was seventh highest in the group, whereas the percentage produced by revenue from selective sales taxes was second highest.

Oklahoma's percentage of tax revenue produced by licenses was the highest of the group; by the individual income tax was sixth highest; by the corporate income tax was third highest; and the percentage produced by severance tax revenue was fourth highest.

On a per capita basis, Oklahoma's 1965 total tax revenue was third highest in the group of regional states; general sales tax revenue was seventh highest; selective sales tax revenue was highest; individual income tax revenue was fifth highest; corporate income tax was fourth highest (among six states), death and gift taxes revenue was highest; and severance tax revenue was fourth highest.

In view of the relatively heavy dependency upon selective sales taxes and licenses for state revenue in Oklahoma, it was decided that the general sales tax, the income taxes, and the severance tax offer the best possibility for providing significant additional amounts of tax revenue for Oklahoma, without placing Oklahoma in a tax disadvantage with respect to the other regional states.

Oklahoma's Relative Tax Effort and Capacity

A state's ability to increase tax revenue is limited by the tax capacity of the state, and is dependent upon the tax effort within the bounds imposed by that capacity. Tax capacity is a quantitative measure intended to reflect the resources available from which the taxing authority may exact revenue through taxing. Tax effort refers to a measure of the extent to which a taxing authority actually uses its capacity to raise revenue through taxation. Other terms associated with

tax effort are tax burden, tax sacrifice, and tax impact. Tax impact refers to the initial burden of paying the tax, whereas the ultimate burden may be shifted so that the burden in the final analysis rests elsewhere. The concept of Oklahoma's relative tax effort as developed in this study was based upon tax impact, with no attempt to determine the extent of shifting or the incidence of Oklahoma's taxes.

The objective of Chapter III was to evaluate Oklahoma's relative tax effort, using the tax impact approach, and to determine whether Oklahoma can make a stronger tax effort, given the existing tax capacity. Five methods were used to evaluate Oklahoma's relative tax effort:

(1)interstate comparisons of per capita state taxes, and per capita state-local taxes;

(2)interstate comparisons of state tax revenue, and state-local tax revenue, as a percentage of state personal income;

(3)interstate comparisons of Frank's Index numbers (state-local tax revenue as a percentage of personal income divided by per capita personal income for the state, a measure of tax sacrifice);

(4)interstate comparisons of "tax effort" index numbers;

(5)review of the results of a study conducted by the Advisory Commission on Intergovernmental Relations on tax effort and tax capacity in 1960.

Per Capita Tax Collections

Oklahoma's per capita state tax revenue in 1965 was $144.01, which was the eighteenth highest in the nation, and third highest in the group of regional states. The addition of local taxes to state taxes, on a per capita basis, dropped Oklahoma to 39th in the nation, and seventh in the regional group. This represented a decline from 34th highest in the

nation in 1960, and fourth in the group of regional states. At the same time, the difference between Oklahoma's per capita state-local tax revenue and that of the highest ranking regional state increased from $54 in 1960, to $66 in 1965. Oklahoma's percentage increase in per capita state-local tax revenue was next to the lowest in the group of regional states. The total per capita payment (including federal taxes) in 1965 for Oklahoma was about $695, which was the sixth highest in the regional group.

Tax Revenue as a Percentage of Personal Income

On a per capita basis, Oklahoma's personal income is relatively low. In 1960, per capita personal income in Oklahoma was the 37th highest in the nation, and fifth highest among the regional states. In 1965, Oklahoma's per capita personal income was 36th highest in the nation, and still fifth highest in the regional group.

State tax revenue as a percentage of state personal income in 1965 for Oklahoma was 6.3 per cent, which ranked Oklahoma 14th highest in the nation, and third highest in the regional group. The addition of 1965 local taxes to state taxes, however, caused Oklahoma's relative position to decline to 28th in the nation and fifth in the regional group, with 1965 state-local tax collections amounting to 9.4 per cent of 1965 personal income in the state.

Frank's Index: Tax Sacrifice Index

H. J. Frank developed a method of relating the amount of taxes paid to the ability of the taxpayers to pay, which gives consideration

to differences in income levels between states. His index of tax "sacrifice" is calculated by dividing state-local tax collections as a percentage of personal income by per capita personal income, which gives greater weight to income than to taxes, then multiplying by 1,000. In Chapter III, this index was calculated for all 50 states, using 1965 tax and income data.

Oklahoma's tax "sacrifice" index number for 1965 was ranked 22nd highest in the nation, and fourth highest in the group of regional states. An earlier study, made by Ansel Sharp and Robert Sandmeyer of Oklahoma State University, used 1957 data, which found Oklahoma ranked 13th highest in the nation, and third highest in the regional group. Thus, Oklahoma's relative tax sacrifice appeared to have slipped some between 1957 and 1965.

Tax Effort Index

Oklahoma's relative tax effort was also measured by an index specifically designed to measure tax effort. This tax effort index actually involves the computation of three indexes: an economic ability index, a tax index, and a tax effort index. The economic ability index is a composite of three indexes: a per capita personal income index; a per capita value of the output of basic industries index, and a per capita retail sales index. The per capita output index has three equally weighted component parts: per capita value added by manufactures, per capita value of basic farm crops, and per capita value of mineral production.

Each index was calculated by dividing the state per capita figure

by the average per capita figure for the nation, then multiplying by 100. The economic ability index was found by taking the arithmetic mean of the per capita personal income index, the per capita value of output index, and the per capita retail sales index. The tax index was calculated by dividing the state-local per capita tax figure for each state by the national average. The tax effort index was calculated by dividing the tax index figure by the economic ability index figure, then multiplying by 100.

Data used in preparing the index for this study were for 1963. An earlier study by Sharp and Sandmeyer used 1957 data. In the earlier year, Oklahoma's economic ability index number was 39th highest in the nation, and seventh highest in the group of regional states. In 1963, Oklahoma's economic ability index was 38th highest in the nation, and still ranked seventh highest in the group of regional states. Oklahoma's 1957 tax index number was 33rd highest in the nation, and fifth highest in the regional group. In 1963, Oklahoma's tax index number had dropped in relative position to 22nd highest in the nation, and fourth highest in the regional group. The factor responsible for the drop in Oklahoma's relative position on the scale of index numbers appeared to be the tax index, not the economic ability index, which remained relatively constant between 1957 and 1963.

Advisory Commission's Study

In a study by the Advisory Commission on Intergovernmental Relations, a representative tax system was designed and used to estimate the yield such a tax system would have had for each state in 1960. The

hypothetical yield was then compared to the actual 1960 state-local tax collections as one measure of relative tax effort. An index was established by dividing the actual state-local tax collections in 1960 for each state by the hypothetical yield of the representative system for the state, then multiplying by 100. The national average index number was 100. By this index, Oklahoma, with an index number of 94, ranked 29th highest in the nation, and fourth highest in the regional group.

Conclusion

Based upon the above mentioned findings concerning Oklahoma's relative tax effort, it was concluded that although Oklahoma does have a rather limited tax capacity, the state nevertheless is in a position to make a somewhat stronger tax effort. While state taxes appear relatively heavy in Oklahoma, the relative lightness of local taxes tends to compensate for heavier state taxes, and makes possible a stronger state tax effort. Moreover, several measures of relative tax effort or tax sacrifice indicated a decline in recent years in Oklahoma's effort or tax sacrifice.

Potential Increase in Income Tax Revenue

Oklahoma was one of 33 states in 1965 receiving revenue from taxes on personal and corporate income. Oklahoma's first income tax law dates back to 1908, but was not really enforced until a second income tax law was enacted in 1915. The 1915 act applied only to personal income, and not to corporate income. In 1931, coverage was extended to income of corporations. In 1947, the rates were reduced; the amounts allowed for

personal exemptions were increased; and the income brackets were widened. In 1961, a withholding provision was enacted by the Legislature facilitating the collection of the personal or individual income tax.

Although Oklahoma's revenue from taxes on personal and corporate incomes grew from $32.5 million in 1961, to $57.5 million in 1966, and at the same time, as a percentage of total tax collections by the Oklahoma Tax Commission, rose from 12.10 per cent ot 15.49 per cent, Oklahoma's reliance upon income tax revenue appeared rather weak as compared to the extent of reliance upon income tax revenue by some of the other regional states. In 1965, Oklahoma's total revenue from the personal income tax amounted to $26,484.00, which was the fourth largest amount collected within the group of seven regional states (Texas does not levy an income tax). Oklahoma's corporate income tax revenue in 1965 was third highest among six regional states, but was lower than the 1963 amount collected. In 1963, according to the Compendium of State Government Finances in 1963, corporate income tax revenue exceeded personal income tax revenue in Oklahoma. In 1965, however, personal income tax revenue exceeded corporate income tax revenue by nearly $10 million.

On a per capita basis, personal income tax revenue for Oklahoma in 1965 ranked fifth highest in the group of seven regional states, with a per capita collection of $10.67. In comparison, Colorado collected $30.44 per person in personal income tax revenue, an amount roughly three times as large as Oklahoma's per capita collection. Oklahoma's 1965 corporate income tax revenue, on a per capita basis, was fourth highest in a group of six states.

Oklahoma's personal income tax revenue in 1965 amounted to 0.47

per cent of the total personal income of the state. This percentage figure was next to the lowest in the group of regional states. The highest percentage figure for the group was 1.13 per cent for Colorado. State personal income tax revenue in 1965 as a percentage of 1964 federal taxable income was 1.21 per cent for Oklahoma, again, next to the lowest in the regional group.

Given the evident weak reliance upon income tax revenue by Oklahoma, the potential increases in revenue from certain changes in the two income taxes were estimated. The changes considered in the personal income tax were:

(1)reverting to the pre-1947 rates, brackets, and personal exemptions;

(2)eliminating the deductibility of the federal income taxes paid;

(3)applying Colorado's rates, brackets, and personal exemptions to Oklahoma taxable income;

(4)applying Colorado's rates, brackets, and personal exemptions, plus eliminating the deductibility of federal taxes paid;

(5)adopting a two per cent flat rate income tax.

Data used for estimation purposes were for 1963, except for the flat rate two per cent tax, in which case the estimate was for 1964. For each of these possible revisions in the personal income tax in Oklahoma, the potential increase in revenue was estimated for the year to which the data applied.

The changes considered for Oklahoma's corporate income tax were:

(1)raising the rate from 4.0 per cent, to 5.0 per cent, and to 6.0 per cent;

(2)eliminating the deductibility of the corporate income taxes paid to the federal government;

(3)increasing the rate to 5.0 per cent, or 6.0 per cent, plus eliminating the deductibility of federal taxes paid.

The expected increase in 1965 Oklahoma state corporate income tax revenue was estimated for each revision mentioned above.

In order to estimate the potential effect these changes would have on income tax revenue in Oklahoma, data concerning the distribution of 1963 personal income tax returns by amount of tax liability were secured from the Income Tax Division of the Oklahoma Tax Commission. With this basic data, the distribution of 1963 taxable income for state tax purposes in Oklahoma was calculated in the following manner. For each category of returns by amount of personal income tax liability, the amount of taxable income that would yield an amount of tax liability equal to the middle value of each category of tax liability was estimated. This amount of taxable income was then assumed to be the average amount per return for that particular category.

It was also necessary to have some knowledge of, or to make some assumption about, the average size of family for the taxpayers of Oklahoma at each level of taxable income. An unofficial study made several years ago by the staff of the Income Tax Division indicated that it was reasonable to assume that, on the average, 15-20 per cent of total taxable personal income tax returns filed in Oklahoma were for single persons, and 80-85 per cent of the returns were submitted by married couples with on dependent per couple.

Potential Revenue Increase from Adopting Pre-1947 Rates, Brackets, and Personal Exemptions

The first estimation of the potential increase in personal income

tax revenue was based on the assumption that the rates and brackets applying in Oklahoma prior to 1947 were applied to the distribution of estimated 1963 taxable income. The current personal income tax rates in Oklahoma run from 1.0 per cent of taxable income to 6.0 per cent, with six steps or brackets; whereas the pre-1947 rates ran from 1.0 per cent to 9.0 per cent, with nine steps or brackets. Current brackets are $1,500 in width; pre-1947 brackets were $1,000 wide. Such a change would not affect some levels of income, for instance, taxable incomes of less than $1,000, or between $1,500 and $2,000 would not be affected, but the rates for many people would be increased. It was estimated that such a change would have increased 1963 personal income tax revenue by $8,491,624.

An extention of the above change involved adopting the 1947 personal exemptions, as well as brackets and rates. The current personal exemptions allowed in Oklahoma are $1,000 for a single person; $2,000 for the head of a family or married person living with spouse; and $500 for each dependent. The pre-1947 exemptions were $850 for single persons or $1,700 for the head of a family or married person living with spouse; and $300 per dependent. Adoption of the pre-1947 exemptions would have the effect of increasing the 1963 Oklahoma taxable income for each single person by $150, and $500 for each married couple with one dependent.

The application of the pre-1947 rates, brackets, and personal exemptions to the 1963 distribution of taxable income in Oklahoma would have produced a total personal income tax liability of $34,617,067, which would mean an increase of $14,125,443 over actual 1963 liability.

Eliminating the Deductibility of Federal Taxes Paid

Oklahoma is one of eighteen states allowing federal income taxes to be deducted from adjusted gross income for state income tax purposes. The increase in 1963 Oklahoma personal income tax revenue was estimated with the assumption that the deductibility of the federal taxes paid was eliminated. The amount of federal taxes paid was estimated for each income level by changing 1963 federal rates to the estimated federal taxable income.

The federal taxable income was estimated by adding the difference between federal and state exemptions to the estimated Oklahoma taxable income--$400 in the case of single taxpayers, and $700 for a couple with one child. The amount of federal tax liability was then estimated, and this amount added to the previously estimated Oklahoma taxable income. The resulting figure was assumed to be the Oklahoma taxable income with the deductibility of federal taxes no longer permitted.

Current Oklahoma tax rates and brackets were applied to the estimated Oklahoma taxable income for 1963 which now included taxes paid to the federal government. The increase in 1963 personal income tax revenue from this change was estimated to be $9,541,949.

Applying Colorado's Rates, Brackets, and Personal Exemptions

Colorado has by far the strongest state income tax in the regional group. Colorado's state personal income tax revenue was more than twice the size of Oklahoma's in 1965, even though 1964 total federal taxable income, total number of taxable federal returns, and total federal tax

liability for the two states were approximately equal. The increase in Oklahoma's 1963 personal income tax revenue was estimated, given the application of Colorado's rates, brackets, and personal exemptions to Oklahoma's distribution of 1963 taxable income

Rates under the Colorado law range from 3.0 per cent to 8.0 per cent of taxable income, rising by 0.5 percentage points per bracket, which are $1,000 in width. Personal exemptions are $750 each. The increase in revenue must be due largely to higher rates, especially in the lower brackets, and narrower brackets, as the increase in taxable income due to the smaller Colorado personal exemptions would amount to $250 for either single persons or married couples with one dependent per couple.

It was estimated that Oklahoma's 1963 personal income tax revenue would have been increased by $23,768,760 with the application of Colorado's rates, brackets, and personal exemptions.

Adopting Colorado's Rates, Brackets, and Personal Exemptions, Plus Eliminating the Deductibility of Federal Taxes Paid

The potential increase in 1963 Oklahoma personal income tax revenue was also estimated for the added assumption that federal income taxes paid were not deductible in computing Oklahoma tax liability. The estimated amounts of federal taxes paid in 1963 (same as previous estimates) were added to the Oklahoma 1963 taxable income, plus the $250 due to the difference between Colorado's exemptions and Oklahoma's exemptions. Given the assumption of no deductibility of federal taxes, the application of the Colorado rates, brackets, and personal exemptions would have meant an additional $38,327,067 in 1963 Oklahoma personal

income tax revenue.

Adopting a Flat Rate 2.0 Per Cent Levy

A few states, such as Indiana, levy a flat rate or proportional personal income tax applied to a broad income base, such as the adjusted gross income for federal tax purposes, less personal exemptions. The Advisory Commission on Intergovernmental Relations estimated the yield from a two per cent flat rate tax applied to the 1963 federal "taxable income" (adjusted gross income minus regular federal exemptions) and the yield was compared with the actual yield for each respective state in 1964. It was estimated that Oklahoma's 1964 personal income tax revenue would have been increased by $26,567,000 with such a flat rate tax and the use of the federal taxable income base.

Increases in the Corporate Income Tax

Oklahoma's corporate income tax produced $17,084,000 in 1965, according to the Compendium of State Government Finances in 1965. Estimations of the increases in corporate income tax revenue in 1965 were made for changes in the rate from 4.0 per cent to 5.0 per cent, and to 6.0 per cent; for the elimination of the deductibility of the federal corporate income taxes paid; and for combinations of both changes.

An increase in the rate of the Oklahoma corporate income tax from 4.0 per cent to 5.0 per cent in 1965 would have meant an additional $4,271,000 in 1965 corporate income tax revenue for Oklahoma, while a 6.0 per cent rate would have increased 1965 revenue by $8,542,000.

As it does with personal income tax, Oklahoma allows the corporations filing Oklahoma returns to deduct federal corporate income taxes paid in computing Oklahoma corporate income tax liability. Two states--Arkansas and Colorado--of the regional group do not permit such deductions. With the amount of federal corporate income tax paid by corporations in Oklahoma in 1965, as reported by the Internal Revenue Service, as an approximation of the amount of federal tax claimed by corporations filing 1965 Oklahoma corporate income tax returns, it was estimated that at the current rate of 4.0 per cent, corporate income tax revenue in 1965 could have been increased by $6,557,920 had the federal taxes not been deductible. The increase in 1965 corporate income tax revenue would have been $12,468,400 with a 5.0 per cent rate; or $18,374,880 with a 6.0 per cent rate.

A combination type change in the Oklahoma corporate income tax, involving raising the rate to 5.0 per cent and eliminating the deductibility of federal taxes, would have resulted in an increase of $16,739,400. If the rate had been raised to 6.0 per cent rather than 5.0 per cent, the increase from the combination type change would have been $26,916,880.

Potential Increases in Sales Tax Revenue for Oklahoma

In Chapter V, Oklahoma's general sales tax, also known as the general retail sales tax, was studied for alternative revisions. Revenue from the general sales tax constitutes an important source of revenue not only for Oklahoma, but also for each of the other seven regional states. Oklahoma in 1965 received $69,198,000 from the general sales

tax, according to the Compendium of State Government Finances in 1965, an amount equal to 19.4 per cent of total Oklahoma state tax revenue.

In comparison with the other regional states, Oklahoma's total 1965 general sales tax revenue was sixth highest, and on a per capita basis was seventh highest. Revenue from Oklahoma's general sales tax as a percentage of total state tax revenue was seventh highest in the group of eight regional states, and as a percentage of total state revenue, it was the lowest of the group. Estimates of annual amounts of sales taxes paid by individuals and families of four at various income levels made by the Internal Revenue Service support the contention that Oklahoma's sales tax is relatively light.

With total retail sales volume estimates by Sales Management, Inc. as estimates of the general sales tax bases, it was found that Oklahoma's volume of retail sales (which would be the upper limit on total taxable sales) was fourth highest in 1965, and 5th highest on a per capita basis in 1964. Total general sales tax collections in Oklahoma, however, were sixth highest in terms of total revenue, and seventh highest in terms of per capita revenue. General sales tax revenue in 1965 as a percentage of 1965 estimated total retail sales for Oklahoma ranked seventh highest among the eight regional states. Moreover, the latter percentage figure for Oklahoma declined annually from 1961 to 1965.

Oklahoma first enacted a sales tax law in 1933, and most of the changes in the sales tax since then have consisted of raising the rate from one per cent to two per cent of taxable sales in 1936, and extensions in the number of items to which the levy is applicable. The tax is collected from consumers by retailers, who remit two per cent of total

taxable sales to the Oklahoma Tax Commission. Brackets are used in collecting the tax. A fairly large number of exemptions exist, notably the sales of numerous services, and commodities subject to special excise taxes.

Two basic changes were considered in the general sales tax in Chapter V: (1)increasing the tax rate from 2.0 per cent of taxable sales to 3.0 per cent, and to 4.0 per cent; and (2)increasing the tax base by eliminating the exemptions of sales of beer, cigarettes, gasoline, and automobiles, which are subject to special excise taxes; and taxing sales of services currently exempted from the tax. Estimates of the potential increases in revenue resulting from these changes were made.

Before proceeding with the estimation of the potential increase in sales tax revenue from the above enumerated changes, some assumptions had to be made concerning the price elasticity of demand for taxable goods and services for increases in price caused by increasing the tax rate from 2.0 per cent to 3.0 per cent or 4.0 per cent. (Four regional states levy 2.0 per cent rates, and four levy 3.0 per cent rates). Upon examining the effective rates of taxation on sales in amounts from $0.01 to $1.00 in size, it was concluded that increases in the prices paid due to raising the tax rate from 2.0 per cent to 3.0 per cent, or 4.0 per cent, would not cause total sales to drop by any significant amount. In other words, inelastic demand was assumed for price changes of the magnitude involved in increases in the tax rate by the above mentioned extent.

Increase in Sales Tax Revenue Through Rate Changes

Based upon the assumption of inelasticity and using the 1965 sales tax collection figure of the Oklahoma Tax Commission ($66,181,222), it was estimated that a 3.0 per cent rate in 1965 applied to the same base would have increased sales tax revenue by 50.0 per cent, or $33,090,611; while a 4.0 per cent rate would have increased revenue by 100.0 per cent, or $66,181,222.

Effect of possible deductibility of municipal sales tax. Since Oklahoma municipalities have the power to levy municipal or city sales taxes of 1.0 per cent, it was decided to estimate the possible effect on the increase in general sales tax revenue due to an increase in rates, with the provision that one cent in state sales tax be deductible for each one cent paid in municipal sales tax.

As of August 1967, 49 Oklahoma municipalities had adopted municipal sales taxes. The Oklahoma Tax Commission, which collects the city sales tax along with the state sales tax, reported that city sales tax collections in 1966 amounted to $3,709,781, which actually represented collections for only one-half of the fiscal year at best, and applied to at most one-half of the municipalities levying the tax in 1967, although the major cities, including both Oklahoma City and Tulsa, were levying the sales tax at that time. If it is assumed that the amount reported by the Oklahoma Tax Commission represented about one-half the revenue cities would have collected in 1965 if they had been levying such a tax for that year, the estimated increase in state sales tax revenue would have been reduced by twice this amount, or by about

$7,419,562.

Effect of exempting food to be consumed off the premises. The sales tax is often criticized as being a regressive tax, even though the rates are proportional, and it is generally agreed (and substantiated by several studies) that the taxation of food consumed off the premises makes the sales tax even more regressive than it otherwise would be. With the possibility of increased rates of sales taxation in Oklahoma must go the possibility of eliminating the sales of food consumed off the premises from the tax, or at least from the increase in the tax rate.

Total sales tax revenue in 1965 from grocery stores, meat markets, and other retail establishments engaged in selling food to be consumed off the premises amounted to about $12,491,519. If such food sales were completely exempted, a 3.0 per cent rate would have had a potential revenue increase of $14,353,333; while a 4.0 per cent rate would have had a potential increase of $41,379,506 in 1965. Should the sales of food to be consumed off the premises continue to be taxed at the 2.0 per cent rate, while the overall rate went to 3.0 per cent, the amount of potential increase in 1965 revenue would have been $26,744,953, and from a 4.0 per cent rate, it would have been $53,689,703.

Effect of rate increase on use tax revenue. If the rate for the general sales tax was increased, a corresponding increase in the use tax rate would need to accompany it. In 1965, Oklahoma collected $3,017,254 from the use tax with a rate of 2.0 per cent. An increase in the use tax rate to 3.0 per cent would have increased the 1965 use tax revenue by 50.0 per cent, or $1,507,627; while an increase in the rate to 4.0 per cent would have increased the use tax revenue by 100.0 per cent, or

$3,017,254. These estimates were based upon the supposition that no significant tax evasion would occur as a result of the higher tax rates.

Potential Revenue from Broadening the Tax Base

The second major change in the Oklahoma general sales tax considered was the prospect of broadening the general sales tax base by; (1)eliminating the exemption of sales of beer, cigarettes, gasoline, and motor vehicles, which have been exempted due to the imposition of special excise taxes on these items; and (2)extending the tax coverage of the general sales tax to include the sales of services now exempt under the definition of taxable sales as being primarily those of tangible personal property.

Effect of taxing sales of beer, cigarettes, gasoline, and motor vehicles. In order to estimate the amounts of potential sales tax revenue to be had from taxing the sales of beer, cigarettes, gasoline, and motor vehicles, the 1965 volume of sales of each of these items had to be estimated, with the exception of the sales of motor vehicles. The excise tax on motor vehicles in Oklahoma is 2.0 per cent, which is equal to the general sales tax rate currently imposed. Therefore, the revenue arising from taxing the sales of motor vehicles can be estimated without any knowledge of the total volume of sales by using instead the data available for motor vehicle excise tax collections.

Total retail sales of beer in Oklahoma in 1965 were estimated by applying an average retail price to the number of barrels of beer on which the excise tax was paid in 1965 (as reported by the Oklahoma Tax

Commission), then applying an average price per package to the estimated number of packages of cigarettes sold. Retail gasoline sales were estimated in a manner similar to that by which beer sales were estimated. In this study, each average price included the excise tax levied upon the good in question, which naturally made the general sales tax estimates larger than they would have been had the excise tax not been included in the average retail price.

Based upon the estimated 1965 sales of beer, cigarettes, and gasoline, potential 1965 general sales tax revenue from taxing these sales was estimated with rates of 2.0 per cent, and 3.0 per cent. The potential sales tax revenue from sales of beer was estimated to be $855,391 with a 2.0 per cent rate, and $1,283,086 with a 3.0 per cent rate. Cigarette sales in 1965 would have produced $1,554,440 in sales tax revenue if taxed at a 2.0 per cent rate, or $2,331,660 if taxed at a rate of 3.0 per cent. Potential 1965 general sales tax revenue from gasoline sales was estimated to be $7,510,310 if taxed at a 2.0 per cent, or $11,265,471 if taxed at a 3.0 per cent rate.

The amount of 1965 general sales tax revenue from sales of motor vehicles with a 2.0 per cent rate would have been the same amount as the excise tax revenue on motor vehicles, since the excise tax rate was 2.0 per cent of value of sales, while the 3.0 per cent rate would have produced a revenue 50.0 per cent greater than the excise tax revenue. For 1965, a sales tax rate of 2.0 per cent on the sales of motor vehicles would have brought the state an additional $11,277,445, while a 3.0 per cent rate would have added $16,916,167 to the state's revenue.

Total potential 1965 sales tax revenue from taxing the sales of

beer, cigarettes, gasoline, and motor vehicles at a 2.0 per cent rate was $21,197,590; whereas a 3.0 per cent rate applied to the same sales would have generated a revenue of $31,796,384.

Taxation of services. A large number of services (or rather sales of services) are exempt from the Oklahoma general sales tax. The potential revenue from extending the tax to cover the sales of a number of services not presently taxed was estimated, based upon sales data for businesses furnishing such services in Oklahoma in 1963, as reported in the Census of Business, Selected Services Oklahoma. If those services clearly not taxable under the present law had been subjected to the tax in 1963, at a rate of 2.0 per cent, the amount of revenue produced would have been about $5,288,250. If the tax rate had been 3.0 per cent, the sales tax revenue from taxing the services listed in the Census of Business, not presently taxable, would have been $8,098,875 in 1963.

The Census of Business data did not include the value of services of certain professional natures, such as medical care. Estimates of the sales of eight groups of services, primarily professional services, were made, as well as the amount of interest paid by consumers on consumer debt in Oklahoma for 1965, by first, calculating the rates of national expenditures for these services (data from the Survey of Current Business) to aggregate personal income in 1965, then applying these ratios to Oklahoma's total 1965 personal income. Sales tax rates of 2.0 per cent and 3.0 per cent were then applied to the estimates of expenditures for these services in Oklahoma in 1965 to get estimates of the potential sales tax revenue.

A rate of 2.0 per cent applied to the estimated value of the sales of the eight groups of services would have produced $9,896,272 in sales tax revenue in 1965; while a 3.0 per cent rate would have produced $14,844,407. Taxation of medical services and hospital services each would have provided over two million dollars in sales tax revenue in 1965. If interest on consumer debt (price paid for the sale of the service of money) had been taxable at a rate of 2.0 per cent in 1965, the revenue would have amounted to $2,386,410; or if taxed at a 3.0 per cent rate, the revenue would have been $3,579,615. Total 1965 potential sales tax revenue from taxing the expenditures for the eight groups of services and interest paid on consumer debt amounted to $12,282,682 with a 2.0 per cent rate, and $18,424,022 with a 3.0 per cent rate.

Potential Increase in Gross Production Tax Revenue

In Chapter VI, the possibility of increasing the revenue from the gross production or severance tax was analyzed. Although each of the eight regional states received some revenue from severance taxes in 1965--severance taxes are those levied on extractive industries--only four, including Oklahoma, received significant amounts. In 1965, Oklahoma collected $38,483,000 from the gross production tax, which was the third largest amount of this type of revenue reported for the eight regional states, although it was far less than the $202,285,000 collected in Texas or the $79,085,000 collected in Louisiana and only about $10 million more than the amount collected in New Mexico.

Per capita revenue from the severance tax for Oklahoma in 1965 was

$15.68, the fourth highest in the group. In comparison, Louisiana collected $51.36 per person; New Mexico received $27.28 per person; and Texas collected $19.47 per person from the severance tax. The 1965 severance tax revenue contributed 10.8 per cent of Oklahoma's total tax revenue; 14.7 per cent of New Mexico's; 17.0 per cent of Texas' total tax revenue; and 30.8 per cent of the total tax revenue for Louisiana. The relative importance of gross production tax revenue in Oklahoma has been declining in recent years, dropping from 12.40 per cent of total collections by the Oklahoma Tax Commission in 1961 to 10.55 per cent in 1966.

Gross production tax rates in Oklahoma are 0.75 per cent of the gross value of asphalt, lead, zinc, jack, gold, silver, and copper produced in Oklahoma during the taxable year; and 5.0 per cent on the value of the production of petroleum, natural gas (including casinghead gas) and uranium. The tax is in lieu of the property tax on such minerals, and the revenue is shared by the state government (which receives 78.0 per cent) and local governments.

The objective of this chapter was to estimate the potential increase in revenue from the severance or gross production tax resulting from certain changes in the tax law. Since there are no exemptions, and most of the mineral production of the state is taxable, the selected changes dealt mostly with changes in the rate of taxation; and emphasis was on the production of petroleum and natural gas, which together accounted for almost 88.0 per cent of the value of total marketed mineral production in Oklahoma for 1965. Natural gas production alone accounted for 20.0 per cent, and petroleum production accounted for 67.8 per cent

of the total gross value of mineral production in 1965 which amounted to $907,914,000.

Potential increases in gross production tax revenue was estimated for two different years in Oklahoma using different sources of data concerning the quantity and value of mineral production. The considered changes in the tax for 1965 included: (1)taxing zinc and lead production at a rate of 5.0 per cent, plus including the production of coal, natural gas liquids, and gypsum production to the tax at the 5.0 per cent rate; (2)adopting the Texas rate of 7.0 per cent on natural gas, and applying this rate to the production of crude petroleum as well as natural gas, with the added assumption that natural gas liquids were also taxable, and at the 7.0 per cent rate; and (3)adopting the Louisiana rates on petroleum and natural gas (26¢ per barrel on petroleum, and 2.3¢ per thousand cubic feet on natural gas). The suggested changes for 1966 were: (1)applying the 7.0 per cent rate to the production of oil and gas in Oklahoma; and (2)applying the Louisiana rates to oil and gas production. Data for 1965 were taken from the 1965 Minerals Yearbook, while data for 1966 came from the Gross Production Tax Division of the Oklahoma Tax Commission.

Increases in 1965 Gross Production Tax Revenue

According to the Oklahoma Tax Commission, 1965 gross production tax revenue amounted to $37,894,416. If all taxable minerals had been taxed at a rate of 5.0 per cent of value, and the production of natural gas liquids, coal, and gypsum had been added to the list of taxable resources, based upon production values of taxable minerals in the 1965

Minerals Yearbook, total gross production tax revenue would have been $42,484,200, an increase of $4,689,748 over actual collections. Most of the increase was accounted for by the taxing of natural gas liquids. Additional revenue from taxing the production of coal and gypsum together amounted to only about $400,000.

If a rate of 7.0 per cent had been applied to the gross production of crude petroleum and natural gas production in 1965, which is the Texas rate on natural gas, with the production of natural gas liquids included and also taxable at 7.0 per cent of value, the potential increase in revenue was $20,028,850. Crude petroleum production accounted for $11,759,080 of the increase; natural gas production accounted for $3,645,940; and natural gas liquids production accounted for $4,673,830.

The third change considered was to apply the Louisiana rate of 26¢ per barrel on crude petroleum and 2.3¢ per thousand cubic feet of natural gas to the production of these minerals in Oklahoma during 1965. The increase in 1965 gross production tax revenue resulting from these changes was estimated to be $37,544,529.

Increases in 1966 Severance Tax Revenue

The 1966 data were for amounts and values of crude petroleum and natural gas production (including casinghead gas, which the Oklahoma law lists separately) as reported by the Oklahoma Tax Commission. Total 1966 gross production tax revenue, as of February 1968, was $41,062,229. If crude petroleum and natural gas production in 1966 had been taxed at 7.0 per cent of value, the total expected revenue would have been $57,487,122, an increase of $16,424,893 over the actual revenue.

If the gross production of crude petroleum and natural gas had been taxed in 1966 at the Louisiana rates of 26¢ per barrel on oil, and 2.3¢ per thousand cubic feet of natural gas, the increase in revenue would have been $47,520,480, which was about $10 million greater than the estimated increase in 1965, due to greater production of petroleum in 1966.

Possibility of Exhausting the Tax Base

One problem involved with relying upon a severance tax as a primary source of state revenue is the possibility of exhausting the tax base. Moreover, the quantity and value of mineral produced are subject to the vagaries of the market forces. The number of years the known recoverable 1965 reserves of crude petroleum, natural gas, and natural gas liquids in Oklahoma would last if production continued at the 1965 level were estimated. At the 1965 levels of production, crude petroleum reserves would be depleted in about 7-8 years; natural gas reserves would last for about 15 years; and natural gas liquids reserves would be exhausted in 10-11 years. New discoveries, if forthcoming, would naturally prolong the time period such reserves would last. During the period 1961-1965, annual new reserves discovered in Oklahoma averaged about 50.0 per cent of the annual average amounts of crude petroleum extracted, while new discoveries of natural gas and natural gas liquids approximately equaled the amounts being extracted.

Potential Increases in Property Tax Revenue

The objective of Chapter VII was to estimate the potential increase

in property tax revenue in Oklahoma resulting from certain selected changes in that tax. The Oklahoma Constitution prohibits the levying of property tax for revenue for state purposes; the property tax revenue in Oklahoma belongs to the local governments of the state. Justification for including a consideration of increasing the property tax revenue in this study, which is concerned with increasing tax revenue for the State of Oklahoma was based upon the fact that the state government provides an important source of revenue for local governments by supplementing local revenues with intergovernmental expenditures. The property tax is the main source of tax revenue for local governments, and the weakness of the general property tax is a prime reason for the inadequacy of local revenues. If the local governments could be made more affluent through greater property tax revenues, their financial dependency on the state would be lessened, and the revenue currently being transferred from the state to the local governments could be directed to state use. The effect would be the same as if the tax revenue of the state were increased.

Local governments in Oklahoma obtain a large portion of their total revenues from the state government. In 1962, total local government revenue in Oklahoma amounted to $400 million, with only $268 million of that amount originating from purely local sources. In that year, Oklahoma local governments received $150 million in tax revenue, with $143 million of it collected from property taxes. In 1962, the state government in Oklahoma furnished the local governments $119 in aid to various functions for which local governments are responsible. Of total Oklahoma local revenue in 1962, 67.0 per cent came from purely local sources;

29.8 per cent came from the state government; and the remainder was provided by the federal government. Local governments in Kansas, Missouri, and Texas obtained 75.0 per cent or more of their revenues from local sources. On the other hand, local governments in New Mexico and Louisiana received more than 43.0 per cent of total revenues from the state governments.

Tax revenue as a percentage of total local revenue ranged from 26.9 per cent in New Mexico to 55.9 per cent in Missouri. Local governments in four regional states obtained a larger percentage of total revenue from tax revenue than did local governments in Oklahoma, which received 37.5 per cent of total local revenue from taxes. Property tax revenue as a percentage of total local tax revenue was second highest in Oklahoma. Kansas local governments had the highest percentage.

The state government in Oklahoma gave $145,438,000 in 1965 to local governments. Three types of local governments receive virtually all the state aid. County governments received $37,078,000; municipal governments received $14,224,000; and school districts received $93,203,000. On a percentage distribution, school districts received 64.1 per cent of total state aid to local governments in 1965; county governments received 25.5 per cent; and municipal governments received 9.8 per cent. Special districts received what little that remained.

The Oklahoma Constitution grants the state Legislature the power to determine what property is to be taxable. All property, unless exempt or subject to an in lieu tax, is subject to the ad valorem tax. The ad valorem or property tax is levied upon two classes of property;

real property and personal property. Property cannot be assessed at more than 35.0 per cent of the fair price of the property. Revenue from the property tax is for local use only. The administration of the property tax, except for the assessment of railroads and public service corporations' property is in the hands of county officials in each of the 77 counties. The Oklahoma Tax Commission assesses the property of railroads and public service corporations, with the County Assessor, an elective official, of each county assessing all other property. The levying of the property tax is handled by the County Equalization Board and the County Excise Board, consisting of the same members. The County Treasurer collects the tax. Although county levy sheets showing the valuation of property in each county, and the tax levies of each local government in the county, are filled with the State Board of Equalization, and the State Auditor, no report as to the amounts of property tax revenue collected is ever submitted to any state government agency.

Alternatives for Increasing Revenue

Possible alternatives for increasing the property tax revenue are either in the nature of (1)increasing the tax base, by such means as reducing the number of exemptions, which is fairly large; placing property on the tax rolls not presently there; and increasing the assessed value of property; or in the nature of (2)increasing the tax rate. In this study, the effect of two changes in the taxing of property in Oklahoma were studied for increases in revenue: (1)correcting the problem of underassessment; and (2)eliminating the homestead exemption. The deter-

mination of property tax rates is the affair of the many local taxing jurisdictions in the state, and was entirely too complex to be considered in this study. Lack of information prohibited any consideration of including property not current on the tax role.

Eliminating the homestead exemption. The homestead exemption arose as a result of Article XII of the Oklahoma Constitution, adopted in 1935, which authorized the Legislature to exempt homesteads from all ad valorem taxation. The Legislature established the amount of the homestead exemption at $1,000 of the assessed value. A homestead is defined as the actual residence of a natural person who is a citizen of Oklahoma. A rural homestead may not exceed 160 acres, and an urban homestead may not exceed one acre. Buildings used for commercial purposes cannot be included as part of the homestead.

In order to calculate the potential increase in property tax revenue forthcoming from the elimination of the homestead exemption, the property tax rate should be applied to the assessed value of the homestead exemption. The task is complicated by the fact that three types of local governments in each county have the power to levy property taxes. Each county government, municipal government, and school district has a separate property tax levy which is applied to the net assessed value of the property within the taxing jurisdiction. It was necessary to find the tax levy in 1966 for each type of government in each county, and the value of the homestead exemption for the respective government. Tax levy data were obtained for each county government and each municipal government in each county from the tax levy sheets filed with the Okla-

homa State Board of Equalization, as were also the value of homestead exemptions for each municipality. The value of the homestead exemption for each county was given in the Seventeenth Biennial Report of the Oklahoma Tax Commission, which is the relevant figure for county governments and school districts by county.

The potential increase in 1966 county government revenue was estimated by applying the total county levy (not including the 4 mill county levy for school districts) to the total value of homestead exemptions in the respective county. The school district revenue was estimated by calculating an average county-wide 1966 school district tax levy (by dividing total school district revenue from the property tax by the net assessed value of property in the respective county), and applying the average levy to the total value of homestead exemptions in the respective county. Municipal revenue was estimated by applying the municipal levy for each municipality in the state to the value of the homestead exemption, then summarizing the revenue for the entire county.

The potential increase for county government revenue ranged from $5,329 to $1,893,506. Total potential increase in 1966 county government revenue for all 77 counties amounted to $7,560,702. School district revenue increases by county ranged from $19,135 to $2,900,180. The total potential increase in school district revenue for all school districts in the state was $13,592,802. Municipal revenue in 1966 on a county-wide basis, could have been increased by amounts ranging from $367 to $2,034,498. For all municipalities in the state, the total potential increase amounted to $6,971,625, with over half the increase expected in Tulsa and Oklahoma Counties. The total potential 1966 pro-

perty tax revenue for all three types of local governments in Oklahoma, with the elimation of the homestead exemption and application of the actual 1966 rates, amounted to $28,125,129.

Correcting the problem of underassessment. The second change was to increase the assessment of property in Oklahoma by an amount sufficiently large as to raise the assessed value of all property up to 35.0 per cent of the market value, which is the limit imposed by the Oklahoma Constitution. According to studies by the Oklahoma Tax Commission Ad Valorem Division, the ratio of assessed value to market value for real property in Oklahoma on the annual average, 1964-1966, for urban property ranged from 15.20 per cent to 28.00 per cent (by county). The average urban property assessment-sales ratio was 21.94 per cent for the entire state. Rural property assessment-sales ratios ranged from 11.61 per cent to 24.12 per cent. The average for the state was 16.82 per cent. For all property, on a county basis, the ratio ranged from 14.26 per cent to 25.05 per cent, with the average being 20.75 per cent. A study of property assessment-sales ratios by the Census Bureau in 1961, revealed approximately the same type of information about the assessment of property in Oklahoma, and indicates that very little change has taken place over the last 5-6 years.

A recent (1967) law requires the property in the state to be reassessed soon, but the assessment remains in the hands of local officials rather than being transferred to the state or some private concern.

The potential increase in 1966 property tax revenue for county governments, municipal governments, and school districts, by county, given these assumptions: (1)the homestead exemption was eliminated;

(2)all property was assessed at 35.0 per cent of market value; and (3) the same rates were applied as in 1966.

The effect of assessing all property at 35.0 per cent of gross market value was estimated, by county, by multiplying the actual gross assessed value of property by the maximum allowable valuation--35.0 per cent--divided by the average assessment-sales ratio. This was done for urban property in each county, as well as for all property in each county. For urban property, the gross valuation was estimated by summing the gross valuations of municipalities in each county for 1966, then multiplying this value by the maximum allowable assessment percentage divided by the urban-assessment-sales ratio for the respective county. The county levy and the average school district levy for each county was applied to the estimated gross valuation of all property in the county, and an average municipal levy (found by dividing total 1966 municipal revenue by county by the total net value of all urban property of the county) was applied to the new estimated gross value of urban property of the respective county.

The potential 1966 increase in county government revenue from the assessment of property at 35.0 per cent of market value, and the elimination of the homestead exemption, ranged from $67,484 to $9,548,116. The total expected increase in county governments' revenue for the state was $45,287,632. For the municipalities of Oklahoma, the potential increase by county ranged from $2,503 to $9,537,702. The total expected increase in municipal government revenue amounted to $26,378,872. School districts would have fared extremely well from such changes in 1966. The expected increase in school district revenue, by county,

ranged from $126,759 to $14,569,093. The total expected increase in school district revenue for all districts in the state amount to $80,584,556.

The total potential 1966 increase in revenue for all three types of local governments from the elimination of the homestead exemption and the assessment of property at 35.0 per cent of market value would have been $152,251,000. State intergovernmental expenditures to local governments in 1965 amounted to $145,438,000. Thus, it appears very likely that these changes in the property tax would make local governments sufficiently independent of state funds that the state could use these funds elsewhere.

Recommendations

As a result of the research involved in completing this study, a number of recommendations seem worthy of comment. Any recommendations made must come within the scope of this study. It should be noted, however, that the tax alternatives considered dealt for the most part with changes in broad-based taxes--the income tax, the general sales tax, and the general property tax--with the single exception of the severance tax or gross production tax. In a sense, an implicit general recommendation has already emerged, manifesting itself in the type of taxes selected for the study. To make that implicit recommendation explicit, the state should place more reliance upon broad-based taxes relative to the reliance upon the narrow-based taxes such as excises and licenses. Under the current tax program, the narrow-based taxes tend to be emphasized, with the broad-based taxes used relatively lightly.

More specifically, the following tax changes are recommended, based upon the premise that maximum revenue is desired without jeopardizing the state's competitiveness in any sense, and with only scant consideration given to the problem of tax equity. It is thought the following combination of changes would be capable of providing substantial increases in revenue without placing Oklahoma's tay structure out-of-line with those of the other regional states.

(1) The property tax in Oklahoma should be improved so as to reduce the burden on the state government of having to heavily subsidize local governmental functions. It is especially important that all property in the state be evaluated at the maximum 35.0 per cent of market value. In addition, the homestead exemption should be eliminated. It has been demonstrated in this study that the recommended change in the property tax would virtually free the state government of the necessity of supporting heavily the county governments, municipalities, and school districts. If county officials find themselves unequal to the task of re-evaluating property at the recommended level, the Oklahoma Tax Commission should be given the responsibility of evaluating all property in the state.

(2) The general sales tax rate should be increased to 3.0 per cent, with the provision that one cent in state sales tax be deductible for each one cent paid in city sales tax. In this manner, the sales tax rate would be uniform throughout the state, and all cities and towns would be encouraged to adopt the one cent sales tax. To compensate for the smaller increase in potential revenue from this provision, the base of the sales tax should be expanded to include the sales of beer, ciga-

rettes, gasoline, and motor vehicles, and certainly should include all sales of services. Food sales should not be made exempt from the tax increase.

(3) If the 3.0 per cent rate in the general sales tax is adopted, the pre-1947 rates, brackets, and personal exemptions should be adopted for the Oklahoma state personal income tax. However, if the 3.0 per cent sales tax rate is not adopted, or if food sales were exempted from the increase in the sales tax rate, the Colorado personal income tax rates, brackets, and personal exemptions should be adopted by Oklahoma.

The reason for this qualification is based upon an equity judgement reflecting the values of the researcher, as well as some skepticism as to the ability of lower income groups to pay taxes. A sales tax is by nature regressive. A 3.0 per cent rate in the general sales tax would place a larger burden on the lower income groups than on the higher income groups. At the same time, the ability of the lower income groups to pay additional taxes would be reduced. The Colorado income tax rates begin at 3.0 per cent with rather narrow brackets. Such a high minimum rate for the income tax combined with the 3.0 per cent sales tax rate would be an unbearable burden on the lower income groups. The pre-1947 Oklahoma rates started at 1.0 per cent, and rose by brackets of $1,000 to 9.0 per cent. Thus, these rates and brackets, coupled with the 3.0 per cent sales tax rate, would generate considerable revenue without being unbearable for the lower income groups.

In addition, the corporate income tax rate should be increased to 5.0 per cent. For both the corporate income tax and the personal income tax, regardless of the rates, brackets, and personal exemptions chosen,

the federal taxes paid should not be deductible.

(4) The Louisiana rates for natural gas and crude petroleum should be adopted for Oklahoma's gross production tax. Production of natural gas liquids in Oklahoma should be made taxable at a rate of 7.0 per cent of the gross value.

If this recommended program of tax revisions should be adopted, Oklahoma would benefit from a tax structure that placed substantial reliance upon the broad-based income and sales taxes at the state level, and would be relieved of the financial burden of subsidizing local governments as the property tax would become more productive. Not only would the state receive a substantial increase in revenue initially, without creating the undesired tax disadvantage, but there would be long-run advantages of the change. The benefits of broad-based taxes are several. Such taxes enable a state to secure substantial amounts of revenue with fairly low rates. The bases of such taxes also typically expand with increased economic activity and population growth, thus insuring growth in revenue at a time when the need for expanded services arises.

A word of caution must be given in view of these recommendations for tax changes. The problem of state government finance is a complex one, and is made even more so as a result of various political problems involved in tax programs. This particular study has been extremely limited in scope, as most studies of this nature are, and has focused only upon revenue, based upon a number of generalized assumptions. It has largely ignored problems of incidence and equity. In attempting to resolve revenue problems of state governments, pointing out the amounts

of revenue available and the methods by which these potential revenues can be tapped alone is not enough. Tax programs are not founded upon revenue considerations alone; the effect of the plan of taxation on the populace must be considered.

Amounts of potential revenues available through stated changes in several major taxes have been demonstrated in this study. Recommendations have been put forth based upon the goal of maximizing revenue without over-using any particular tax or causing Oklahoma rates to be significantly higher than rates in the other regional states. A study in depth of the incidence of Oklahoma's state taxes should follow and supplement this study, so the matter of tax equity can be considered also in selecting the desired tax alternative. A Tax Study Group, financed by state appropriations and consisting of fiscal experts in the area of state government finance, including especially economists from the two universities of the state with training and experience in public finance, should be formed and charged with the task of making an exhaustive study of Oklahoma state revenue sources in a manner similar to that done by the Ohio Tax Study Group. In connection with this, a study in depth predicting the level of Oklahoma state expenditures is strongly recommended.

The Oklahoma Tax Commission should work more closely with and cooperate more freely with academic researchers attempting to investigate state revenue problems. While certain individuals connected with the Oklahoma Tax Commission rendered valuable aid to the research that went into this study, in a number of instances data were not made available. Part of the problem appears to be due to a lack of communication bet-

ween the universities and the Tax Commission. It appears the Tax Commission is fearful that any research is an attempt to discredit the Commission. Intelligent decisions cannot be made with vital data withheld by various state agencies. It is imperative that the Tax Commission realize the importance of the data it possesses to the public financial welfare of the state, and that it make this data available to researchers where the research is obviously for a scholarly purpose, done in a scholarly manner, and is in the public interest. Moreover, the Commission itself needs to do much more research than it currently does.

In the final analysis, the people of Oklahoma must decide which tax alternative to elect in order to provide the state government with the revenue needed to support a socially desirable scope and standard of public services. As indicated in the introduction of this paper, there are no doubt many alternatives, only a few of which were considered in this study. It is quite possible the choice will be to accept one or some of the alternatives not included in this particular study. Perhaps the basic contribution of this study would be to serve as a departure point, or as a base study, for other studies of a related nature, so that together, these studies would provide sufficient information concerning the Oklahoma state financial situation for making rational and intelligent choices in selecting tax programs to finance future state expenditures.

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