

ANALYSIS OF SR 1085 – Senior Citizen Income Tax Cut

Background

As of January 2006, Georgia residents who are 62 years of age and older or permanently and totally disabled are not taxed on the first \$25,000 of retirement income. While retirement income is usually thought of as pension and retirement account income, the \$25,000 exclusion actually includes income from pensions, IRA accounts, capital gains (losses), dividends, alimony, other income (losses), interest, rental/royalty/partnership income/losses, and up to \$4,000 of earned income. Since 1990, the retirement income exclusion has been increased incrementally, with eight increases between 1994 and 2006. The most recent increase from \$15,000 to \$25,000 occurred in January 2006. Under current law, the income exclusion will continue to grow from \$25,000 to \$30,000 in 2007, and then to \$35,000 in 2008. SR 1085 is a constitutional amendment to further increase senior citizens' income exclusion in 2009 and afterwards. As amended, SR 1085 allows residents age 62 to 69 a retirement income exclusion of \$75,000. Residents age 70 and over could exclude \$100,000 of income from any source.

Fiscal Impact

While tax bills customarily have a fiscal note attached that estimates the revenue loss associated with the bill, resolutions are not required to have a fiscal note. Thus, SR 1085 passed through the Senate without a publicly available fiscal impact statement. Georgia State University's Fiscal Research Center did provide a revenue estimate, rather than an official Fiscal Note, for a House subcommittee that projected a \$41 million revenue loss in 2011, with an annual 3.5% increase in the revenue loss thereafter.

Another estimate of the potential cost of SR 1085 comes from the Institute of Taxation and Economic Policy (ITEP), which modeled the effects of the proposed legislation using its microsimulation tax model for Georgia's population. Since SR 1085's effects would not take place until 2009, ITEP estimates the cost of the legislation in comparison to the 2008 income exclusion, which will be \$35,000. Thus, the estimate provides the cost of raising the retirement income exclusion from \$35,000 to \$75,000 for ages 62 to 69 and \$100,000 for ages 70 and over, based on 2005 income levels.

According to ITEP, the estimated cost of SR 1085, had it been in effect in 2005, would have been \$98 million. That is, if the exemption in 2005 was \$35,000 and SR 1085 took effect to raise the exclusion level to \$75,000 and \$100,000, then the revenue loss would have been an estimated \$98 million. While cost estimates vary on SR 1085, perhaps the more intriguing numbers are on the distribution of the tax cut. Table 1, on the following page, provides a breakdown of how the tax cut would potentially affect Georgia's senior citizen population according to different income levels.

Table 1: Impact of Increasing \$35,000 Retirement Income Exclusion to \$75,000 for ages 62-69 and \$100,000 for ages 70 and over (All Elderly Georgia Taxpayers, 2005 Levels)

(A) Income Ranges		(B) % of Seniors in Income Group Receiving a Tax Cut	(C) Average Tax Cut for those Receiving a Tax Cut	(D) % of Total Tax Cut Received per Income Group
Lowest 20%	Less Than \$12,000	—	—	—
Second 20%	\$12,000 - \$19,000	1%	\$34	1%
Middle 20%	\$19,000 - \$31,000	1%	\$425	1%
Fourth 20%	\$31,000 - \$60,000	12%	\$212	19%
Next 15%	\$60,000 - \$118,000	38%	\$1,115	46%
Next 4%	\$118,000 - \$262,000	81%	\$1,946	25%
Top 1%	\$262,000 and higher	94%	\$5,205	8%

Source: Calculations by the Institute on Taxation and Economic Policy, March 2006

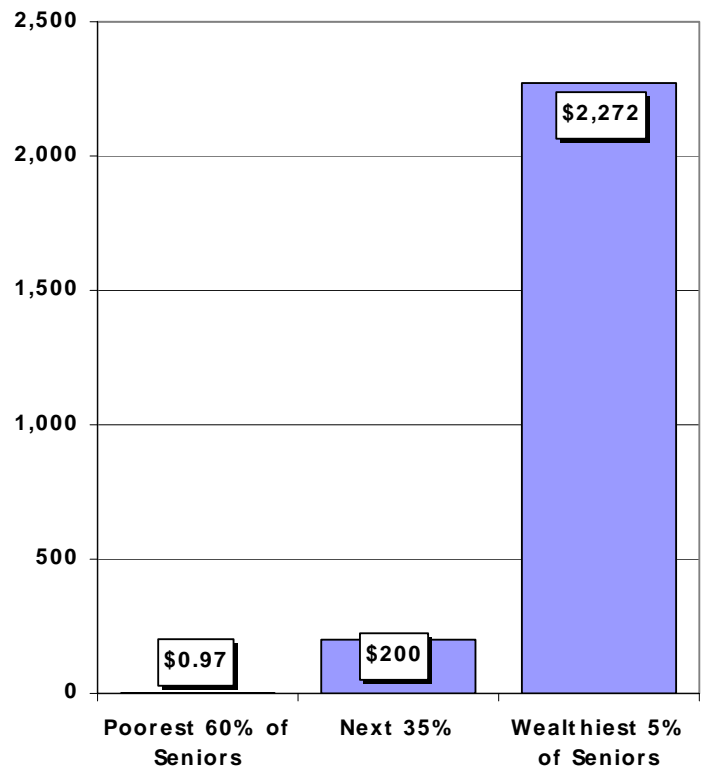
Notes: \$75,000 exclusion is for retirement income; \$100,000 exclusion is for all income sources

In Table 1, Column A shows the income ranges of Georgia's senior citizens in 2005. For example, 20% of elderly Georgia taxpayers had incomes below \$12,000 in 2005, while 1% of senior citizens had incomes of \$262,000 and higher. As shown in Column B, only a small percentage of seniors in the lower income ranges will be able to take the tax cut. Only 1% of seniors with incomes between \$12,000 and \$19,000 will receive a tax cut. Twelve percent of seniors with incomes between \$31,000 and \$60,000 will receive a tax cut. This is not surprising since the retirement income exclusion will be \$35,000 in 2008, and over 60% of elderly Georgians have incomes lower than \$35,000. Thus, raising the income exclusion from \$35,000 to \$75,000 and \$100,000 will primarily provide a tax cut to the upper income ranges.

Column C shows the average tax cut for those receiving a tax cut. Thus, for seniors with incomes between \$31,000 and \$60,000, 12% (Column B) will receive an average tax cut of \$212 (Column C). In contrast, the chart on the left depicts the average tax cut spread across all seniors (not just those actually receiving the cut). As shown in the chart, the poorest 60% receive an average tax cut of ninety-seven cents. In contrast, the wealthiest 5% of seniors will receive an average tax cut of \$2,272.

A comparison of Columns A and D in Table 1 shows how the cost of the tax cut will be distributed among income groups. The poorest 60% of senior citizens will collectively receive only 2% of the proposed tax cut, while the wealthiest 20% will receive 79% of the total cost of the tax cut. In other words, roughly \$2 million will go to the poorest 60% and roughly \$77 million will go to the wealthiest 20% of elderly Georgians (those with incomes over \$60,000). Senior citizens with incomes between \$31,000 and \$60,000 will receive the remaining \$21 million in tax cuts.

**Chart 1: Avg. Tax Cuts Under SR 1085
All Elderly Georgians in 2005**



Source: Institute on Taxation and Economic Policy, March 2006

Observations

Georgia's Current Senior Citizen Tax Preferences Are Relatively Generous

Currently, Georgia has a tax structure that greatly benefits senior citizens, in comparison to other state tax structures. According to research from Georgia State University, Georgia was among the top five states offering the most generous senior citizen income tax exclusions in 2002.¹ Georgia's senior citizen tax preference is slated to become more generous in the coming years. As mentioned previously, the retirement income exclusion will grow incrementally from \$25,000 to \$35,000 between 2006 and 2008. According to GSU estimates, income tax exclusions phased in between 1990 and 2008 will create a total revenue loss of \$157 million in 2008, alone.² SR 1085 would only deepen this substantial revenue loss in 2009 and after.

In addition to income tax preferences, there currently exist senior citizen property tax preferences as well. Another proposed tax bill, HB 848, would expand those property tax preferences by eliminating the state property tax for senior citizens.

It is laudable tax policy to ensure that fixed-income, low-income senior citizens are not overly taxed. However, the operative term "low-income" is not the basis of proposed legislation, in that the vast majority of SR 1085's tax cut will go to senior citizens in upper income groups.

As the Elderly Population Grows, So Too the Revenue Loss

According to recent Census projections, Georgia's 65 and older population will increase from 9.6% of the population in 2000 to 15.9% in 2030.³ As this population grows, the revenue loss associated with SR 1085 and other senior citizen tax exemptions will also increase. This revenue loss will coincide with increased demand for elderly services, such as Medicaid long-term care. Frank Shafroth, former director of state-federal relations with the National Governor's Association, recently summarized the issue as follows:

"Most states allow the elderly to exclude retirement income, and many state and local governments provide sales and property tax breaks for the elderly. But there is no evidence that those tax policies are vital to economic development. With a projected 66 percent growth in the nation's elderly population over the next 35 years, surely disparate tax treatment solely on the basis of age is an issue deserving scrutiny. However, the issue of who is going to pay the taxes to finance the exploding costs of healthcare for the elderly has not been examined much. The states that both offer the greatest tax expenditures and anticipate the most rapid growth in elderly populations should anticipate increasing tax revenue erosion as the cost of providing healthcare for seniors soars."⁴

Not All of the Tax Cut Will Go Back to Senior Citizens

Taxpayers are allowed to deduct state income taxes when they itemize federal income taxes. When SR 1085 lowers or eliminates the state income tax for some seniors, those seniors will experience a higher federal income tax liability, if they itemize. Therefore, a portion of the tax cut granted under SR 1085 will go to the federal government. According to ITEP calculations with 2005 income levels, an estimated 11% of SR 1085's tax cut would have gone to the federal government, rather than elderly taxpayers in Georgia.

¹ Landers, Glenn, et. al. *Georgia's Aging Population: What to Expect and How to Cope*. November 2005. Georgia State University. http://frp.aysps.gsu.edu/frp/frpreports/report_116/rpt116.pdf.

² Ibid.

³ *State Interim Population Projections by Age and Sex: 2004 – 2030*. US Census Bureau. April 2005. www.census.gov/population/www/projections/projectionsagesex.html.

⁴ Shafroth, Frank. "State Tax Relief for the Elderly – Generational Tax Questions." *State Tax Notes*, Mar. 13, 2006, p. 811

SR 1085 Maintains the Bias Against Elderly Wage Earners

Currently, the retirement income exclusion is biased against wage earners. Senior citizens who continue to rely more on wages than on retirement (passive) income do not get as significant a benefit as those seniors who live solely on retirement income. Current law allows only a \$4,000 wage exclusion from the total \$25,000 retirement exclusion. While SR 1085 exempts wages for those age 70 and over (up to \$100,000), the legislation continues the bias against wage earners for taxpayers ages 62 to 69. As in current law, SR 1085 would only allow a \$4,000 wage exemption for taxpayers 62 to 69.

Conclusion

As the senior citizen population continues to grow, the state should evaluate tax preferences given to seniors to judge whether those tax preferences are needed and by whom those tax preferences are needed. While certain tax exemptions and preferences are justified, the state should aim to base all exemptions on income and ability to pay, rather than age alone, given the fact that Georgia already provides some of the most generous senior citizen tax preferences in the nation.

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