CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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IMPACT OF ADMINISTRATION "GROWTH" PACKAGE ON THE ELDERLY

By Joel Friedman

Supporters of the Administration's "economic growth" package frequently stress the impact of these tax cuts on the elderly. In particular, they maintain that a significant share of the benefits of the proposed exemption from individual taxes of corporate dividends would flow to the elderly. Although the elderly as a group would receive a large relative share of the Administration's proposed tax cuts, these benefits would flow predominately to those elderly individuals who have high incomes.

According to estimates prepared by the Urban Institute-Brookings Institution Tax Policy Center, nearly 15 percent of the total tax-cut benefits of the "growth" package would go to tax filers over the age of 65. But of this total going to the elderly:

- About 14 percent would flow to those over age 65 with incomes exceeding $1 million a year, and who represent just 0.2 percent of all elderly. These very high-income elderly would receive an average tax cut of over $90,000 in 2003.

- Over 60 percent of the benefits would go to those elderly with incomes over $100,000, who account for only about 11 percent of all elderly tax filers.

- Fewer than 11 percent of the benefits would flow to the elderly with incomes of less than $50,000, even though this group represents two-thirds of all filers over age 65. Overall, this group of elderly would receive *less than 2 percent* of all the benefits from the total tax-cut package.

The Administration has also portrayed its tax cuts as advantageous for the elderly by noting that "13 million elderly would receive an average tax cut of $1,384." But highlighting the *average* tax cut is misleading, because Tax Policy Center data show that only 79 percent of elderly tax filers — nearly four out of five — would get less than this amount. About 40 percent of elderly tax filers would receive less than $100 from the Administration's package.

Impact of Dividend Tax Cut on the Elderly

Tax Policy Center estimates also show the misleading nature of the claims that the proposed dividend tax cut would greatly benefit the elderly. The estimates confirm that a significant share of the benefits of the dividend tax cut — 37 percent — would go to those over age 65. But these benefits would be concentrated in a small group of elderly who have high incomes.

- Nearly 43 percent of the benefits of the dividend exemption that would accrue to elderly individuals would flow to the 2.5 percent of elderly people with incomes exceeding $200,000.

- More than three-quarters of the benefits that would go to the elderly from this tax cut would flow to the 19 percent of elderly with incomes above $75,000.

- Elderly people with incomes below $50,000 — a group that represents two-thirds of all of the elderly in the nation — would receive only 11 percent of the tax cut going to the elderly and *only 4 percent* of the total dividend tax cut.

By citing a statistic showing that a large share of the benefits from the dividend exemption would go to the elderly, some proponents of this tax cut appear to be trying to foster the impression that it would benefit the average or typical elderly person. This is not the case. The majority of elderly have fairly modest incomes and would receive little or nothing from this tax proposal.

Overall, the benefits of the Administration's tax-cut proposals would flow predominately to a small group of individuals with high incomes, and a number of these high-income taxpayers happen to be elderly. That this is so does not alter the fact that most elderly people would receive little or no benefit from the Administration's proposal. In fact, many elderly could be adversely affected if the tax cuts resulted in fewer resources being available for programs upon which ordinary elderly people rely.