STATES SHOULD REVISIT COSTLY, OUTDATED TAX BREAKS FOR SENIORS

Across the nation, states are providing big tax breaks to high-income seniors, worsening economic and racial inequality. To free up funds for members of other communities and ensure low-income seniors get what they need, states should target senior tax breaks to those who need them most.

About us:

The State Priorities Partnership shapes state policies that reduce poverty, advance equity, and promote inclusive economies that pave the way for widespread prosperity. It is coordinated by the Center on Budget and Policy Priorities.

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State Priorities Partnership
Analysis + Impact

Center on Budget and Policy Priorities

EVERY STATE PROVIDES EXPENSIVE TAX BREAKS TO SENIORS AND THE COST OF THOSE TAX BREAKS IS RISING

- Senior tax breaks now cost about $27 billion a year — a figure that will more than double by 2030, when the number of Americans over 65 will grow to 1 in 5.
- These tax breaks cost states 7 percent of state income taxes on average in 2013.
- America's growing elderly population will stretch state budgets thin not just with their health care and other needs, but with the expensive tax breaks that every state provides seniors.

TAX BREAKS FOR SENIORS BENEFIT THOSE WHO NEED THEM LEAST

- Most states provide tax breaks to all seniors regardless of the recipient's income or savings. That approach may have made sense in the 1970s, when poverty among seniors was widespread. But today the poverty rate among the elderly is much lower. At the same time, income inequality among seniors in the United States is higher than in any OECD country other than Chile and Mexico and is growing with each generation.
- Higher-income seniors who are fortunate enough to receive pensions or annuities and whose jobs pay enough for them to save for retirement benefit most from state tax breaks, such as exemptions from taxes on retirement income.
- While age-based personal exemptions and standard deductions benefit low-income taxpayers more often, they generally provide much smaller savings than other types of senior tax breaks.
- Homestead exemptions, a common type of property tax exemption, are also poorly targeted. Many states offer these sorts of exemptions or credits to seniors, most often regardless of income.

SENIOR TAX BREAKS REINFORCE RACIAL INEQUALITY

- Some groups face particularly high barriers to accumulating savings and other assets. For example, many Black and Hispanic families have faced years of employment and housing discrimination that have made it difficult to build savings over generations. As a result, these families generally have far less wealth than white ones and therefore benefit less from senior income tax exemptions later in life.
- People of color are also less likely to be covered by a defined benefit pension plan and are much less likely to have retirement savings than white households of the same age and income. As a result, they benefit less from state tax breaks on income from pensions and retirement accounts.

STATES SHOULD TARGET SENIOR TAX BREAKS TO THOSE WHO NEED THEM

States can better target senior tax breaks by:

- Limiting tax exemptions so that only seniors and retirees below an income threshold can use them.
- Raising the age of eligibility for senior and retiree tax exemptions.
- Expanding state Earned Income Tax Credits to seniors.
- Developing a means-tested credit targeted specifically to low-income seniors.
- Providing property tax relief through "circuit-breakers" which base payment amounts on affordability.
- Making state tax systems less "upside-down" in general.