

Targeting Tax Cuts for Seniors

Executive Summary

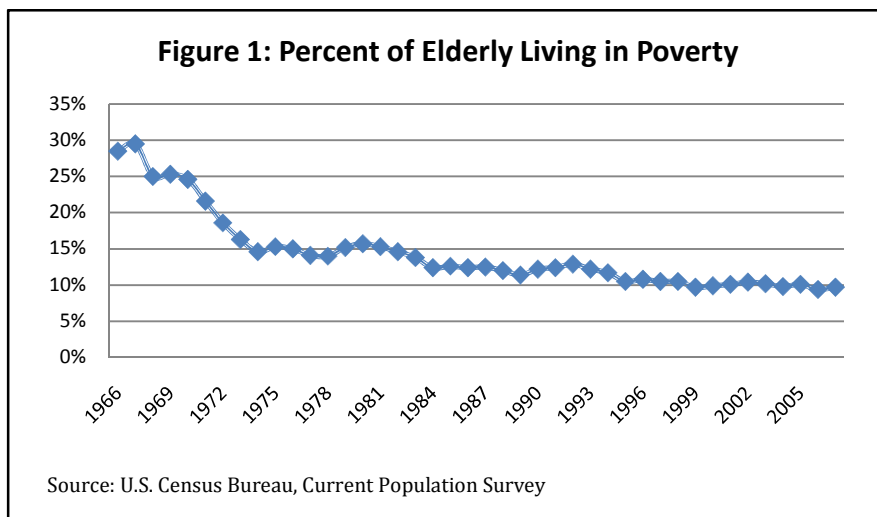
By the year 2030, according to the Census Bureau projections, almost one out of every five Louisiana citizens will be over the age of 65. The increase in the number of elderly will result in rising costs and falling revenue for future state budgets. As the population ages, the cost of health care, state retirement pensions, and social services offered to the elderly will rise. Meanwhile, more Louisiana citizens will become eligible for age determined tax reductions, eliminating a portion of the state's revenue. This 2009 regular legislative session, several bills have been proposed to further reduce the amount of state taxes paid by individuals over 65, some of which fully exempt them from all state income taxation. Instead of sweeping tax exemptions for all individuals over 65 years, the state should consider using income based criteria to better target assistance to the low- and moderate-income citizens within this age group.

Percent of Elderly Living in Poverty

Decades ago elder poverty was much more widespread in the United States than it is today. According to the Census Bureau, in 2007, 9.7 percent of the nation's elderly population lived below the poverty level, down from almost 30 percent in the late 1960s. (See Figure 1). As a result of this decline, tax laws that were put into place to benefit the poor elderly population are now benefiting elderly taxpayers who are equally able, if not more so, to pay taxes as other portions of the population. Therefore, instead of laws that simply exempt everyone over 65 from paying, there should be consideration given to the age group's ability to pay by including an income

requirement in tax preferences for seniors.

In addition, Louisiana could better target elder tax breaks to those least able to pay by raising the eligibility age. In 2007, 13.3 percent of Louisiana's citizens over the age of 65 lived below the poverty level. Within that population, the probability of poverty increased with age. In 2007, 12.1 percent of individuals between 65 and 74 had incomes below the poverty level. That rose to 14.8 percent of individuals over 75 years of age.



Rising Age of Population

As a result of advances in medical science as well as the aging baby boomer generation, the age of the United States population is rising. According to the Census Bureau, in 2000, Louisiana's senior citizens made up approximately 11.6 percent of the state's population. That number is expected to rise to 12.6 percent in 2010 and then 19.7 percent in 2030. The increase in this segment of the population will cause health care, retirement, and social

services costs to rise and will make all tax reductions for this age group more expensive. By better targeting tax reductions on those most in need, states can free resources to help weather the short term fiscal crisis while paying for the growing needs of senior citizens and still assisting poor elder residents.

Tax Preferences for Elderly in Louisiana

Currently Louisiana offers several income tax reductions to the state's senior citizens regardless of their income. Those include:

- 100% income tax exemption on social security income,
- 100% income tax exemption on federal and state government pension income, and
- \$6,000 income tax exemption on annual retirement income (\$12,000 if married, filing jointly and both receive private pension income).

This legislative session, several bills have been proposed to further reduce the amount of state taxes paid by individuals over 65. Three specifically, propose to exempt persons aged 65 or older from all state income taxation. The Legislative Fiscal Office estimates this proposal will cost the state \$234 million in fiscal year 2009-2010, or 9.3 percent of the individual income tax estimated to be collected. This will increase by approximately 7.5 percent every year totaling a revenue loss of \$1.36 billion over the next 5 years.

Recommendations

In the current economic climate, Louisiana needs more not less revenue to ensure that both now and in the years to come the state will have adequate resources to continue to provide for its citizens. This includes updating provisions in light of the fact that there is less of a correlation between age and poverty. There are several ways to help alleviate the tax burden from the poor elder population that are less costly than sweeping tax exemptions. These include making income limits or tests part of new and existing tax reduction programs for seniors.

For example:

- Base the social security income tax exemption on income level, similar to the federal income tax provisions.
- Raise the standard deduction for senior citizens to better target the low- and moderate- income persons.
- Raise the eligibility age from 65 to 75 for all age determined tax exemptions.

About the Louisiana Budget Project

Louisiana Association of Nonprofit Organizations formed the Louisiana Budget Project (LBP) in 2006 to increase public awareness of, information on and input into the state budget preparation process. The LBP monitors and reports on state government spending and how it affects Louisiana's low- to moderate-income families.

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