Analytics

Published by the Caesar Rodney Institute

RELEASE: CRI - Center for Economic Policy and Analysis

RE: Should seniors be treated like other taxpayers?

DATE: April 6, 2011

Using age as a criterion, the state of Delaware exempts Social Security income and the first $12,500 of pension income from the state's income tax. The reasoning of legislators is that this is "fair" and boosts the net in-migration of retirees to Delaware. The facts support neither of these claims.

These exemptions should be stopped. All Delawareans, regardless of age, should be taxed on their ability to pay. This should be done not to increase state tax revenue and fuel more expansion of state government, rather to more fairly distribute the tax burden. Why?

First, while there are many seniors who have modest income, many seniors have as much income and wealth as non-senior taxpaying households. The ability to pay, not simply age, should be the determinant of tax breaks.

The before tax per capita income of non-senior households in 2009 was $25,692 compared to $24,288 for households headed by a person age 65-74 and $19,545 for households headed by a person age 75 or more.[1]

Seniors have more net worth and less debt than non-senior households.[2]

(in thousands)	Non-senior families	65-74 age families	75+ age families
Median value of financial assets	$37.8	$68.1	$41.5
Median value of nonfinancial assets	$218.1	$303.3	$219.3
Median value of debt	$84.6	$65.5	$31.4

Source: Federal Reserve Bank, 2007 Survey of Consumer Finances

About 63% of non-senior households are homeowners compared to 81% of 65-74 households and 77% of 75+ households. Among these homeowners, 25% of the non-senior households have no mortgage compared to 63% of households 65-74 and 84% of 75+ households.[3]

If the Federal tax regulations are followed in Delaware, only a portion of the Social Security benefits above a base amount adjusted gross income of $25,000 ($32,000 for joint filers) will be taxed. Thus this policy would not penalize low income seniors. The latest estimates (FY-10) of the tax burden shifted to

[1] Bureau of the Census, 2009 Consumer Expenditure Survey, Table 3.
[2] Federal Reserve Bank, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, February, 2009.
[3] Bureau of the Census, 2009 Consumer Expenditure Survey, Table 3.

non-senior households in the state of Delaware from the two exemptions are $34 million from Social Security and $48 million from pensions.[4]

Second, the current tax shifting from senior households to non-senior households is excessive. While households less than age 65 paid $629 of state and local income taxes, households age 65-74 paid $186 and households age 75+ paid $37.

Simultaneously, the explosion of the ranks of the seniors as the baby-boomers pass 65 starting this year will exacerbate an already serious state expenditure issue. While Delaware state spending solely on persons age 65 and over cannot be isolated, according to the Survey of Government Finances, between FY-98 and FY-08 the state's spending on social services (including health) and income maintenance rose from 14% to over 20% of total state expenditures. This increase was driven primarily by Medicaid, and the explosive component of Medicaid is nursing home care.

Finally, taxing income from Social Security and pensions will not substantially reduce the net in-migration of higher income retirement households coming to Delaware from other states. According to the research literature, interstate migrating retirement households seek origins with low seasonal temperature variation, low rates of violent crime, coastal properties, high median value home values, low property taxes, and low estate/inheritance taxes.[5] Furthermore, although the number and types of income tax breaks offered to the elderly by states has grown steadily over the last forty years, recent robust empirical analysis fails to show any consistent effect of state income tax policies on elderly migration across state lines.[6]

Five states account for over 80% of the net in-migrants to Delaware, including seniors. In order of contribution they are New Jersey, New York, Pennsylvania, Maryland, and Massachusetts.[7] Weighting by absolute net in-migration flow, Delaware's state and local tax burden as a percent of personal income is 9.6% compared to 11.3% for the states of origin. Delaware's property tax is 0.43% of the median house value compared to 1.40% for the states of origin. Delaware has no sales tax while the state and local combined sales tax rate in the states of origin is 7.1%.[8] And, Delaware's estate/inheritance tax only applies to the highest income households.

To claim that the state of Delaware's exemptions of Social Security and pension from state income taxes is "fair" and boosts economic growth flies in the face of the facts. The responsibility for paying for state services should not be determined solely by age. Senior who can afford to pay, should pay, and not shift the tax burden to non-senior households, including households with young children and children in college.

[4] Delaware Department of Finance, Tax Preference Report, 2009.
[5] A summary of results from more than a dozen research studies.
[6] Karen Smith Conway and Jonathan C. Rork, "No Country for Old Men (or Women) – Do State Tax Policies Drive Away the Elderly?", National Institutes of Health, March, 2011.
[7] Bureau of the Census, 2005-07 American Community Survey, Table 2.
[8] The Tax Foundation, 2011 Facts and Figures: How Does Your State Compare?, Washington, D.C.

Analytics

Published by the Caesar Rodney Institute

Dr. John E. Stapleford, Director
Center for Economic Policy and Research
johnstapleford@caesarrodney.org
a nearly senior citizen