# THE CONSEQUENCES OF STATE TAX PREFERENTIAL TREATMENT OF THE ELDERLY

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**Abstract**

Every state offers some type of income tax break for older individuals. These often sizable tax breaks are typically justified as necessary for recruiting new retirees or preventing current residents from fleeing to lower tax states; equity considerations are also sometimes given. These policies are currently in flux; for the first time, some states have made meaningful reductions while other states continue to expand them. This research presents multi-faceted evidence on the consequences of these tax breaks. We begin by reporting the current status of and recent changes to these tax breaks. Using data from the American Community Survey and income tax liabilities generated via TAXSIM, we investigate the fiscal consequences of these tax breaks – for both the taxpayers who receive them and the states that offer them. We explore the geographic and income distribution of these tax expenditures as well and simulate the effect of several recently enacted and proposed changes. The magnitude of these consequences are then juxtaposed against recent evidence that elderly interstate migration is fairly rare and unresponsive to policy changes. The paper concludes with an overall evaluation of these policies and discusses possible reasons why these tax breaks persist and their likelihood of survival into the future.

## I. INTRODUCTION

The federal government and every state offer income tax preferences to older individuals. These tax breaks are often sizable and their revenue consequences are only going to grow as the population ages. As pressures mount to reduce the US budget deficit, federal tax expenditures in general have come under scrutiny, although federal tax breaks for older Americans have not received much recent attention. Tax breaks for the elderly *are* in the spotlight at the state level, but in polarizing ways. After more than fifty years of mostly steady increases in these tax breaks, since 2011 several states have enacted or have proposed enacting reductions in these tax breaks, including Hawaii, Illinois, Kentucky, Michigan and North Carolina. At the same time, at least one state, Maine, nearly doubled its exemption for pension income. One state has actually done both. In 2010, Georgia enacted legislation that steadily increased the amount of 'retirement income' (broadly defined) exempt from taxation such that by 2016 such income would be completely exempt. Two years later, it capped the exemption at its relatively generous 2012 level of $65,000 per filer over age 65. Why do these tax breaks exist and how did they arise? Who benefits from them and what exactly are their costs? What are the revenue implications of some of these new policies and proposed reforms? Why might the tide be turning for these tax breaks for seniors?

In this paper, we attempt to answer these questions. We begin by providing a brief history of income tax breaks for the elderly, which helps us to better understand why these policies exist in the first place. Next, we report on the current status of these tax breaks and examine who exactly is benefitting from them and by how much. Because states frequently follow the federal government in devising their income policies, we consider federal tax breaks as well. Using data from the American Community Survey and income tax liabilities generated via TAXSIM we then investigate the effects of these tax breaks as well as some possible federal and state reforms. We explore the geographic and income distribution of these tax expenditures and consider their revenue implications.

We conclude the paper by evaluating these policies in light of the usual justifications given and available empirical evidence. Our estimates cast serious doubt on equity as a possible justification. Another well-documented justification for both the elimination of state estate, inheritance and gift (EIG) taxes and the expansion of state income tax breaks for the elderly has been the desire by the states to retain and recruit the elderly. We summarize recent evidence that suggests the migration response is in fact quite modest. We also note that the elderly are attractive in part because they may impose little burden on state budgets, which is true only inasmuch as their needs are largely met by federal entitlement programs. As these programs come under fiscal pressure and intergenerational equity concerns grow, the desirability of these tax breaks fall even further into question.

## II. BACKGROUND

Three types of elderly income tax breaks exist at either the state or federal levels: favorable treatment of pension income, favorable treatment of social security benefits (SSB) and an extra deduction/exemption/credit based on age.[1] These three types emerged and evolved in different ways and for apparently different reasons.[2] Interestingly, the very first income tax breaks for the elderly, at both the federal and state levels, apparently arose as oversights rather than deliberate preferential treatment. At the state level, Vermont inadvertently enacted the first pension exemption in creating its income tax in 1931 when it omitted pension income from its definition of income. Similarly, pension exemptions sometimes emerged in other states enacting new income taxes because of pre-existing laws regarding public pensions. Beyond these early cases, however, the number of states granting pension exemptions as well as the level of the exemptions have steadily grown. Conway and Rork (2012b) provide both anecdotal and econometric evidence that tax competition is a likely explanation for this growth. It is also notable

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[1] Note that we are only focusing on tax breaks targeting the current elderly; for example, we do not consider the tax benefits bestowed on contributions by current workers to retirement accounts. Likewise, while the health care deduction may disproportionately benefit the elderly, it is not based on age and there are no differential, age-based features.

[2] For a detailed accounting of the history of elderly income tax breaks, see Conway and Rork (2012b), from which much of this background discussion is drawn.

that these state policies diverge from that of the federal government, which treats all types of pension income as taxable.

The other two types of income tax breaks for the elderly, the favorable tax treatment of social security and the extra exemption/deduction/credit given elderly taxpayers, both first emerged at the federal level. The tax status of the benefits from the newly enacted Social Security program was not explicitly established until an IRS ruling, six years later, in 1941. Like the first pension exemption, it too then seems to have arisen by accident but it had lasting effects. The tax exempt status of SSB was given as a justification for the first *deliberate* federal tax break, when the Revenue Act of 1948 included an extra $600 exemption for each individual aged 65+. This policy was debated with arguments that resonate today: proponents argued that the aged were especially hurt by the high cost-of-living after the war and that it helped to establish parity for those who didn't receive (tax-exempt) SSB. They also argued that it was a temporary substitute for a needed increase in SSB (which did end up increasing dramatically in the next decade). Opponents argued that all low and fixed income households were hurt by the high cost-of-living and should be taken care of with a progressive tax system and that, if anything, the aged have a lower cost of living than other groups. Within twenty years, the majority of states had followed the federal government by granting their elderly taxpayers an additional exemption, deduction or credit, and 34 out of 41 states with broad-based income tax systems continue to do so. The states also followed the Federal government in treating SSB as tax exempt income.

Federal tax breaks to the elderly began to subside after the creation of Medicare and Supplemental Security Income (SSI), most dramatically in the 1980s. Both the more generous health care expense deduction and the capital gains exclusion from the sale of one's home was extended to all taxpayers regardless of age. In 1983, the federal government began taxing SSB for the first time since the program's inception; up to 50% of SSB were taxable for high income households. A second, higher income threshold was established in 1993 above which 85% of SSB are taxable. The Tax Reform Act of 1986 (TRA86) eliminated the extra exemption for those aged 65 and over and replaced it with an extra

standard deduction. Although the dollar amounts were slightly higher than the exemption, the fact that it only applied to non-itemizers combined with the lower marginal tax rates enacted by TRA86 reduced the value of this tax break to the elderly. This extra standard deduction and the partial exemption of social security benefits are the primary federal tax breaks still in existence.

Many states followed the spirit of TRA86 in reforming their own tax systems, likewise reducing the extra deduction/exemption/credit to the elderly and reducing their marginal tax rates. Some states also followed the federal government in taxing a portion of social security benefits, and the list of states that do continues to fluctuate. In stark contrast to federal policy, however, this same time period saw substantial growth in pension income exemptions. In fact, until Michigan's enacted change in 2011, all substantive changes had been in one direction only – upward.

This brief history reveals that while the states appear to have been influenced by federal policy, enacting and then reducing their exemptions/deductions and some enacting partial taxation of SSB, they have also gone their own way when it comes to pension exemptions. In addition, there are no longer any states that base their income tax liabilities on the federal system, and so none are *directly* affected by federal policy.[3] As we show in the next section, the *consequences* of these tax breaks are also quite different. The two remaining federal tax breaks mostly target moderate income seniors, whereas the growing pension exemptions offered by states often target much higher income seniors.

**III. THE CURRENT STATUS OF FEDERAL AND STATE INCOME TAX BREAKS**

In this section, we report the current status of the main federal and state income tax breaks for the elderly and summarize the likely implications for individual taxpayers. This summary is based on federal tax forms, information on state tax break information from Jon Bakija (Bakija 2012) and other sources.

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[3]Three states – Vermont (1967-2000), Nebraska (1968-86) and Rhode Island (1972-2000) -- used to calculate their tax liabilities as a function of the federal tax liability. During those years, any changes in the federal code (e.g., TRA86, the 1983 or 1993 provisions that taxed SSB) directly affected the state tax liability and thus revenues. This direct link, however, no longer exists.

To provide evidence of the distributional implications of these policies, we use the most recent year available from the American Community Survey (ACS) – 2012 -- and combine it with the TAXSIM calculator (Feenberg and Coutts 1994) to generate tax liabilities and tax revenues under many different scenarios. To be consistent, all tax information is reported for 2012 as well.

*A. Federal Tax Breaks and the Characteristics of Elderly Households*

As outlined above, the federal government currently offers two main tax breaks targeting older Americans, the extra standard deduction and the partial exemption of SSB.[4] The basic tax rate structure and the resulting dollar value of the extra standard deduction, which depends on one's marginal tax rate, are summarized in the first four columns of Table 1.[5] In 2012, the extra standard deduction was $1500 if single/head of household and $1200 per person over age 65 if married, filing jointly.[6] Note that the regular standard deduction was $6100/12200 for single/married, which combined with the personal exemption of $3800 means that a single/married household would have to have at least $9900/$19800 in income before this deduction would have any value. Moreover, the extra standard deduction is not available to itemizers, who likely have higher incomes and thus stand to benefit the most. Those with high incomes also face the Alternative Minimum Tax (AMT) and may have their deductions reduced. The value of this tax break is therefore fairly modest; even its maximum value is fairly small at $2400 x 0.35 = $840 if married and both are over age 65 and $1500 x 0.35 = $525 for a single/head of household over age 65.

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[4] A third federal tax break, the *Credit for the Elderly or the Disabled* (Schedule R), exists as well and is designed to limit the tax liability of very low income elderly who do not receive much income in SSB. Specifically, if an individual is over age 65, has a low AGI and receives little in tax-exempt SSB, the amount of tax liability owed is limited. This nonrefundable tax credit provides some parity to low income elderly who receive the majority of their income from sources other than SSB.

[5] The extra deduction is also given to those who are blind as well as those over age 65.

[6] Both the regular and elderly/blind standard deduction amounts increase $50 per person each year so the extra standard deduction is $1600/1300 per single/married person in 2014 and the regular one is $6200. The personal exemption is $3950 in 2014.

The last column in Table 1 reports the percentage of single and married elderly households[7] in the 2012 ACS who have total pre-tax income in each category. These numbers overstate the percentage of elderly in the higher income brackets because they do not consider the preferential tax treatment of social security, a feature we discuss in detail next. Even so, we can conclude that *at most* only 14% of single and 23% of married households receive benefits of more than $225/$180 per person. Less than 1% benefit more than $500 per person and, again, those high income households likely either itemize or face the AMT.

The preferential treatment given SSB almost surely reduces the value of this deduction even more, as 67% of single households' income and almost 50% of married households' income is from SSB (Table 4). This tax break is also much larger, at least for middle income seniors. Table 2 provides the details of the tax treatment of SSB.[8] The actual amount of SSB subject to tax depends on a household's 'combined income' (or 'provisional income') which equals the sum of AGI, tax-exempt interest and 50% of SSB. Single/married households with more than $25,000/32,000 in combined income must pay tax on $.50 of every dollar that their combined income exceeds the threshold until 50% of SSB is taxed. Households above $34,000/44,000 pay $.85 of every dollar that their combined income exceeds that threshold until 85% of SSB is taxed. The formula is fairly complex and so Table 2 provides several examples to show how it works. The combined income thresholds are not indexed for inflation so the benefits of this tax break have been steadily declining over time.

Still, as Table 3 shows, the majority of elderly pay no federal income taxes on their social security benefits; the 2012 ACS data suggests that 82.7% of single individuals and 52.4% of married individuals paid no tax on SSB. These households have modest incomes ($17,307 for single and $36,018 for married) from which a majority comes from SSB. At the other extreme, only 9.2% of single and

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[7]We define married elderly households as those with at least one spouse over age 65.
[8] See also Page and Conway (forthcoming) who provide more details of this policy and its possible effects on labor supply.

30.2% of married households paid income taxes on the maximum 85% of SSB.  As expected, these households have much higher incomes ($80,595 and $124,823, on average) and receive a much smaller proportion of their income from SSB.

Table 4 further illuminates these patterns by reporting the distribution and composition of elderly household income. It also provides demographic information to reveal who these households are.  The top panel reveals just how low the incomes of single individuals are; fully half have incomes below $17,000, which is 150% of the poverty level.[9]  Referring back to Table 1 shows that such people would pay little federal tax even if SSB were not favorably treated (i.e., they would be in the 10% bracket at best).  Less than 1% of single individuals would be in the 33% tax bracket, even if social security benefits were fully taxable.  Looking at the rest of Table 4 for single individuals reveals that higher income single elderly households obtain a much greater proportion of their income from wages and pensions than lower income households.[10]  The demographic information confirms these trends, showing that the higher income groups tend to be younger and less likely retired, although the trend reverses a bit for the very highest 1%. The stereotype of the poor, elderly widow finds mixed support.  The poorest groups are actually slightly less likely to be widowed.  This fact plus the higher proportion of SSB received by the slightly higher income groups (10th-50th percentiles) suggests the strong role of SSB survivor benefits.  At the same, the percent female steadily declines with income among the upper half of the income distribution.  Taken together, these statistics reveal the very modest incomes of single elderly households, and that the higher incomes are achieved with greater wages as much as with greater pensions and dividend income.

Married households (the lower panel) have incomes that are, on average, more than double those of single households at every point in the distribution.  Wages are even more important to the highest incomes, and the role of pensions falls, replaced by dividends.  These trends are again echoed by the

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[9]The poverty threshold for single individuals over age 65 is $11,011 in 2012 (US Census).

[10] Income information on the highest 1% is top-coded in the ACS.  Specifically, the top 0.5% are assigned the mean value for the top 1% *in that state*.  For this reason, as well as the small number of observation yielded by this narrow slice of the income distribution, we do not report the income variables for the top 1%.

steadily declining age and rate of retirement among one or both members as income rises, with the exception of the poorest 10%. These findings highlight that a substantial proportion of the highest income elderly are still working and therefore do not benefit as much from the tax breaks on SSB and pension income.

These exercises reveal that federal income tax breaks likely benefit moderate to upper-middle income seniors the most, despite their relatively lower marginal tax rates, because the extra standard deduction is likely diminished by either the AMT or the decision to itemize and higher income households receive less of their income from SSB and pay taxes on a higher proportion of it. The lower income elderly benefit very little, if at all, from these tax breaks because they would face little tax liability even in their absence. In section IV, we simulate the federal tax liabilities of these groups and the effects of several possible reforms. First, however, we report the status of state tax breaks.

*B. State Tax Breaks*

As noted in Section II, almost every state offers a deduction/exemption/credit to older people. The deductions given are modest; in 2012 they ranged from $600 (North Carolina) to $2500 (Delaware), with most offering the same as the federal policy ($1150). The exemptions are likewise modest, ranging from $250 (Wisconsin) to $2400 (Michigan, followed closely by Montana at $2240 and Arizona at $2100).[11] The low marginal tax rates imposed by most states imply a small maximum value to the taxpayer.[12] The tax credits are likewise modest in value, ranging from $20 (Iowa) to $110 (Delaware, which is the only state to offer both a deduction and a credit). In 2012, fourteen states imposed a partial tax on SSB. Twelve followed the federal law, although two (Kansas and Missouri) have income thresholds below which the tax is eliminated. Two other states (Connecticut and Iowa) follow the more

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[11] West Virginia offers a much higher exemption of $8000, but this is in lieu of any other pension/retirement income exemption. In the past, the state had offered smaller general exemptions as well as specific ones for retirement income.

[12] The top marginal tax rates ranged from 3.07% (Pennsylvania) to 11.0% (Hawaii) in 2012 with a national average of 6.21%.

generous pre-1994 federal law, although Iowa is scheduled to eliminate their tax entirely this year. These two tax breaks are therefore fairly similar to the federal breaks discussed above, although the states' greater generosity towards SSB suggests an even stronger tilt in tax savings towards upper income households.

It is the third type – the exemption for pension income – that most differentiates the states from the federal government and from each other. It also has the largest potential benefits to the taxpayer and, in many states, accrues mostly to the highest income households. Table 5 lists the private pension exemptions offered in 2012 to a married household. Fourteen states offer no exemptions and another thirteen offer a fairly modest exemption, several of which are phased out for high income taxpayers. At the other extreme, three states have exemptions of over $80,000 (Georgia, Michigan and Kentucky) and another five fully exempt pension income. Clearly, the value of these very high exemptions is sizable. Consider the case of Georgia where the top marginal tax rate has been stable at 6%. The maximum value of the 2012 exemption was therefore .06 x $130,000 = $7800.

Referring back to Table 4, we can see that the lowest quartile of married households in 2012 received very little pension income and thus received little benefit from these policies. Similarly, most households in the second lowest quartile appear likely to have had pensions that would have been completely exempted by 9 of the 13 states with the most modest policies and would not have led to much taxation in the 14 states without an exemption.[13] The seven states with moderately generous exemptions ($24,000 to $54,200) reach into the highest income quartile. The policies in Georgia, Kentucky and Michigan, with exemptions over $80,000, reach well into the upper 5% of households. The 2010 legislation that increases the exemption in Georgia (and its subsequent cap in 2012) affects *only* those well into the top 5% of married households. The proposal by the governor of Maine to remove taxes on all pension income likely benefits a wider group since the current modest exemption includes social

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[13]For instance, the top of this quartile received $47,200 in income and applying that quartile's percentage coming from pensions (19.8) yields an estimated $9345.60, which is below the exemption level for 9 of the 13 states with modest exemptions.

security income.  Still, it is projected to cost an estimated $93 million in lost revenues.[14]  We estimate the likely effects of these and other policies in Section IV.

This analysis reveals that state income tax breaks are in general similar to the federal government with respect to low and moderate income elderly, but that they deviate substantially for high income elderly.  In addition to private pension exemptions noted in Table 5, many of which benefit the highest incomes, a majority of states have not followed the federal government in taxing SSB for high income households.  Furthermore, the vast majority of recently enacted or proposed new tax breaks benefit the highest income elderly.  In addition to Georgia and Maine, since 2006 Missouri and Iowa have repealed their taxes on SSB.  However, as discussed more in the next section, very recent events suggest that the tide may be turning, that states may be starting to curb their tax breaks to these highest income seniors.

**IV. THE FISCAL CONSEQUENCES OF INCOME TAX BREAKS AND POSSIBLE REFORMS**

How much do these tax breaks cost the federal and state governments?  Which taxpayers are benefiting from them and by how much?  What would be the impact of possible reforms of and proposed changes to these policies?   In the previous section, we drew some basic inferences by using policy parameters and information about the income distribution.   While illuminating the fundamental characteristics of the current policy, these inferences are based on 'average' individuals and ignore other complexities of the income tax.  In this section, we attempt to construct estimated tax liabilities for the entire distribution of elderly taxpayers under a variety of scenarios; comparing the estimated liabilities provides insights into the fiscal impacts – for both individuals and the government – of different policies.

To construct the estimated federal and state income tax liabilities, we use TAXSIM (Feenberg and Coutts, 1993) and household data from the ACS, both for 2012.  Appendix A describes how we translate the variables provided in the ACS to those required by TAXSIM.  However, the ACS has several

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[14] See http://bangordailynews.com/2011/10/13/politics/lepage%E2%80%99s-proposal-to-eliminate-pension-taxes-slows-reform-work/ (accessed 1/11/12).

limitations that inhibit our ability to predict tax liabilities: 1) it does not distinguish between types of pension income, 2) it does not identify tax-exempt interest income (needed to construct 'combined income'), and 3) it provides no information regarding possible itemized deductions. We note that TAXSIM does not address the first two anyway, but the third one requires us to assume that everyone claims the standard deduction. This almost certainly inflates the estimated tax liabilities for higher income tax payers. Another limitation of the ACS is that the top 0.5% *in each state* has its income information top-coded to equal the mean of the top 1% in the state. For this reason, we exclude this group from most of the distributional statistics we report. We do, however, include them in our total revenue figures and note that this limitation biases downward the estimated tax liabilities and revenues from this group.

TAXSIM poses additional limitations. It does not allow for a refined effect of age provisions. Several states offer tax breaks to voters younger than 65; for example, Georgia's earlier law referred to voters aged 62 and over. TAXSIM only distinguishes individuals aged 65 and over and therefore ignores other special age-based provisions. TAXSIM also does not distinguish between types of pensions. As noted in Table 5, a few states limit the type of pensions that are exempt (e.g., Alabama); TAXSIM appears to only extend the exemption when there are no limits. More generally, it is not possible to modify certain features of the tax code in TAXSIM; we must do so indirectly, by changing each individual household's information. As a result, these changes can sometime trigger other aspects of the tax code, which as discussed below can confound our estimates, often towards zero. Finally, all of these exercises ignore possible behavioral responses. The elderly may change their work, consumption/saving and migration behaviors in response to these policies.

To sum up, the exercises we perform estimate the effects of policies for those households with at least one person aged 65 and over in 2012, assuming that everyone claims the standard deduction, has no tax-exempt interest income or public pension income and makes no changes to his/her behavior. Given the possible errors or oversimplifications present in TAXSIM and the ACS and our indirect approach to

simulating policy changes, they surely contain substantial measurement error. As such, we view them as illustrative calculations that, combined with the analyses in Section III, provide a broad picture of the costs and effects of income tax breaks for the elderly.

*A. Estimated Value of Federal Tax Breaks*

Tax expenditures, in general, have been a high profile target of deficit reduction rhetoric, although few specific plans have been offered and none, to our knowledge, target elderly taxpayers. Here we consider the possible revenue effects, both in the aggregate and across the income distribution, of the two main federal elderly tax breaks – the extra standard deduction and the tax-exempt status of SSB.

Table 6 reports how the current tax liabilities and estimated effects of possible changes in policy are distributed across the different income groups as well as their overall sums, which provide estimates of the overall revenue consequences. Immediately apparent in this table are the relatively low tax burdens faced by the elderly. According to our ACS/TAXSIM estimates, the bottom income quartile of both single and married households owed no positive federal tax liability, on average, in 2012.[15] The small negative tax liabilities for married households appear due to the *Earned Income Tax Credit* being received by a household member below age 65. Even for upper income taxpayers, we see a low average federal tax rate. Married households in the second highest quartile (50th to 75th percentile), with incomes ranging from $47201 to $78650, face an average tax liability of $2602 and an average tax rate of approximately 4%. In the 90th to 95th, the average tax rate is approximately 14%. Even the very highest income group (95th to 99th) pays approximately 14.5% of their income in taxes. For single individuals, the average tax rates are even lower. Recall too that because we cannot allow for itemized deductions, these tax liabilities are likely overstated for high income taxpayers.

First, we estimate the fiscal consequences of the age-based, extra standard deduction by estimating the federal tax liabilities using the ACS and then repeating the calculations setting everyone's

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[15] We estimate that the bottom 40.5% and 11.5% of single and married households aged 18-54 pay no tax.

age to 50.[16]  The results of this exercise show that this tax break costs approximately $5.2 billion in federal tax revenues (the bottom line, second column of Table 6).  Again, note that this estimate is assuredly inflated by the failure to allow for itemized deductions.  To understand the extent of this upward bias, we perform two exercises.  First, we estimate the federal tax liabilities of all adults in the ACS and compare the estimated revenue ($1.599 trillion) to the amount reported in the *Economic Report of the President* for 2012 (Table B-80, $1.132 trillion);  this suggests an inflation factor of approximately 1.412 across all taxpayers.  Applying this factor leads to a revised estimate of $3.68 billion or about 0.325% of all federal income tax revenue in 2012.  Second, we consider this change as a proportion of all estimated federal revenue for this age group.  Looking at the total revenue under the current law suggests that removing this extra deduction would increase the tax liabilities by $5.2B/$190.8B or 2.7 percent.

Looking at its distributional effects, note that the lower income groups actually see a reduction in their tax liability; this result is largely due to another age-based policy that this exercise triggers -- the *Earned Income Tax Credit (EITC)* is not available to those over age 65.  This finding therefore suggests that our exercise slightly *under-estimates* the revenue consequences.  It also suggests that extending the *EITC* for those over age 65 would be more beneficial for the lowest income, single households than the extra deduction. For upper income elderly taxpayers, Table 6 reveals that the effects of this reform are modest and progressive; the biggest increase accrues to the top decile, but still is only in the $350-470 range.[17]

Next we consider the favorable tax treatment of SSB.  We re-estimate the elderly's federal tax liabilities under two possible scenarios:  1) 85% of SSB are taxed, and 2) all SSB are taxed.[18]  Given that

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[16] Unlike many of the states which impose age restrictions on their pension exemptions, the federal government has no other age-based restrictions; SSB taxation holds regardless of age.  Thus, the primary effect of changing the taxpayer's age is to remove the extra standard deduction.  However, the Earned Income Credit (EIC) is not available to those aged 65 and over, and so changing the taxpayer's age causes some very low income taxpayers with wage income to receive this benefit.

[17] We suspect the estimated tax increase is smaller for the 95-99th percentile of married taxpayers versus the 90-95th percentile because of reduced deductions caused by the Alternative Minimum Tax (AMT).

[18] We accomplished this in TAXSIM by changing the household's social security benefits into 'other' income.  If we instead change the SSB into wage income, the EITC is triggered when combined with eliminating the age-based

at least some portion of SSB are based on employee contributions, which have already been taxed, it

seems unlikely that a tax on 100% of SSB would be implemented.  In fact, it was this aspect of SSB that

led to the determination of 85% as the proper amount to be taxed (Goodman and Liebman 2008).  These

exercises are reported in the next two columns of Table 6; the last two columns report these exercises

when the taxpayer's age is also set to 50 (and thus the age deduction is implicitly removed as well)

For the lowest quartile, the effects of taxing SSB, with or without removing the age deduction,

are minimal.  For single taxpayers, the second quartile ($25^{th}$ to $50^{th}$) is only moderately affected as well;

even taxing all SSB and removing the age deduction increases their average tax liability by $336.  Their

average tax rate increases from approximately zero to 2.5%.

For higher income taxpayers, however, the fiscal consequences of these exercises are substantial.

For married households, it is the middle two quartiles ($25^{th}$ to $75^{th}$) that experience the biggest increases,

both in dollar amounts and proportionately. The second quartile is estimated to pay $1492 more in taxes,

for an average tax rate of nearly 4% (compared to 0.5% currently).  The upper income quartile ($50^{th}$ to

$75^{th}$) is estimated to pay, on average, $1243 more if 85% of SSB are included as taxable income and

$2009 if all SSB are taxed and the age deduction is removed.  Compared to a current estimated liability of

$2602, these are sizable proportional increases as well.  The highest income households experience

smaller overall increases, since most are already paying tax on the full 85% of SSB.  The patterns are

similar for single households, although the biggest increases come slightly higher in the income

distribution.  This make sense given the proportionately higher income thresholds for SSB taxation that

single households currently face than married households do (i.e., $25,000 vs. $32,000 for 50% taxation,

and $34,000 vs. $44,000 for 85%  taxation).

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deduction. In the state simulations it can also trigger other wage-based (or FICA-based) tax breaks.  For the 85%
exercise, the remaining 15% of SSB were set equal to zero so as not to generate, mistakenly, any additional tax.

The estimated revenues generated from these changes in policy are substantial. Taxing 85% of SSB for all taxpayers is estimated to increase revenues by $22.2 billion (adjusted value of $15.72 billion). This increase is 11.6% of all estimated income tax revenues paid by the elderly in 2012. Taxing all SSB and removing the age deduction – the most dramatic change in policies – yields an estimated increase of $45.3 billion (or a 23.7% increase).

In sum, we find that the federal tax breaks granted the elderly tend to benefit middle and upper middle income households the most. This occurs because lower income households pay little or no taxes and would continue to do so even with these changes; the highest income elderly are already paying taxes on the majority of the SSB and their deductions are likely being phased out by the AMT. Moreover, we suspect that many itemize deductions instead of taking the extra standard deduction. Finally, reforming these federal tax breaks – especially the tax treatment of SSB – has the potential to generate substantial tax revenues.

*B. Possible State Tax Reforms*

In this part, we perform similar exercises for estimated state tax liabilities for elderly tax breaks in general, and then we consider some recently proposed/enacted reforms in five individual states – namely, Georgia, Maine, Illinois, North Carolina and Kentucky. Table 7 reports the estimated current tax liability per elderly individual living in each state followed by the change in tax liability if 1) all social security benefits were taxable, 2) all pension income were taxable, and then 3) all elderly tax breaks were removed, which includes 1) and 2) plus the elimination of the extra deduction/exemption/credit. To account for the likely inflation of the liabilities as well as the likely differences across states in terms of household income and reliance on the income tax, we report the last change as a percentage of a) the total estimated state income liability for those aged 65 and over in the state, and b) the total estimated state income tax revenue for all adults in the state. The former shows the proportional impact on the elderly and the latter shows the proportional impact on the state's income tax revenues; both help address the

likely inflation of our TAXSIM estimates since these total estimates (also derived from the ACS) are

inflated as well.  It is important to note that these estimates are reported for individuals *actually living* in

the state.  In other words, the estimated effects across the states reflect the differences in their policies *and*

in the economic status of the elderly who live there.  We choose this approach because it best represents

the actual fiscal consequences of the policies and possible reforms.[19]  However, as discussed shortly, we

also perform some of these calculations using the entire national sample of taxpayers so that we may see

which states are particularly generous in their treatment of the elderly (holding their economic status

constant;  see Table 8).

The first column reveals how much the state tax liability on elderly individuals varies across the

states.  Again, some of this is likely due to differences in economic circumstance and the state's overall

reliance on the income tax (e.g., Connecticut's $1931 versus Mississippi's $532).  The next column

shows the substantial effect that taxing all SSB as other income would have on individual tax liabilities.

Recall that many states do not tax SSB at all and several others treat it more generously than the federal

government.  Removing this tax break leads to increases ranging from $97 (NM) to $1126 (OR) and an

average increase of 45% (=$424/942).  In contrast, treating all pension income as other income is

estimated to have much smaller effects.  We must caution the reader, however, about some possible errors

in the pension estimates.  Several states show trivial effects of taxing pensions; this result makes sense for

the 14 states that offer no exemption for pension income (Table 5).  However, at least two other states are

problematic.  Alabama and Hawaii both fully exempt many types of pension income, yet because the

exemption does not apply to all types, TAXSIM apparently treats all pension income as taxable.[20]  These

anomalies notwithstanding, we would expect the effects of taxing pensions to be considerable smaller

than taxing SSB because most households receive less of their income in pensions and because many

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[19] In contrast, a measure that isolates only the differences due to policy would calculate these estimates for a
nationally representative set of taxpayers instead.  We explore the effects of that type of exercise in Table 8.  Table 7
also only lists those states with broad-based income tax systems. The total amounts at the bottom include all states,
however.

[20] See Table 5 and its notes for more detail.

states already tax pensions, especially those of high income taxpayers. Also, most of the patterns we see across states are sensible. States with very generous pension exemptions – e.g., Georgia, Illinois and Michigan, as well as the others in the last three columns of Table 5 – stand out as experiencing large increases when such pensions are taxed.

The third column estimates the effects of taxing all SSB and pension income and changing the taxpayer's age to 50, thereby removing the extra age deduction/exemption/credit. As in the federal simulations, this last element could trigger other features of the state's tax system as well. This exercise shows sizable increases in the estimated tax liability, from a low of $129 in North Dakota to a high of $1513 in Georgia. It is interesting to note that Georgia is the highest, even after its retrenchment of its pension exemption. Other states either considering or having enacted reductions in these tax breaks are also near the top, such as Hawaii, Illinois, Michigan and Kentucky. All of these states also top the list in proportionate increases in elderly tax revenues or personal income tax overall (the last two columns).[21] This exercise makes clear that the states' with the costliest tax breaks are the ones reconsidering their policies. Other states with big impacts include Arkansas, Delaware, Mississippi, Oklahoma and, especially, South Carolina; if history is a guide, then these states may be the next to consider reducing their tax breaks.

The bottom of Table 7 reports the total estimated revenues from each of these policy changes. Taxing SSB is estimated to generate $19.1 billion in additional state tax revenues and implementing all three policy changes is estimated to yield $30.1 billion. At 7.6% of all estimated total state income tax revenues, these changes would have a significant fiscal impact on the states.

To separate the effects of demographic composition (the size and wealth of the elderly population in the state) from the generosity of state income tax policy, Table 8 reports the actual liability and additional liability if all tax breaks were removed using two different samples – 1) those actually living in

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[21] Hawaii is an exception but that is due to the way TAXSIM treats pension income in Hawaii.

the state (as in Table 7), and 2) the national sample of elderly households. The tax liabilities behave as expected; relatively high (low) income states saw their estimated tax liabilities decrease (increase) when the national sample is used. While the range of estimated liabilities declined, however, it is still substantial, ranging from $534 in North Dakota to $2099 in Oregon. Even this range, however, reflects the overall reliance on income taxes in the states, which varies a great deal. To control for this variation, the last two columns report the percentage increase in the estimated tax liability under the two scenarios. This final comparison yields two insights. First, the relative magnitude of these tax breaks are substantial. Even in the least generous states, removing these tax breaks leads the average elderly person's state income tax liability to increase by more than 20 percent. Second, even controlling for differences in socioeconomic status and reliance on income taxes, there is a wide range in the generosity of these tax breaks. The least generous states are Rhode Island and New Mexico at 21%, and Nebraska, Vermont and North Dakota are only slightly higher. The most generous state is once again Georgia at 199%, followed by the same states as revealed in Table 7 -- Michigan, Illinois, Pennsylvania, Mississippi, South Carolina, Kentucky and Delaware, all of which exceed 100%. Thus, the patterns we see in Table 7 are not being solely driven by demographics and income tax reliance.

Our last set of empirical exercises consider in more detail the effects of some recently enacted or proposed changes to these state income tax breaks. We begin with two states (Georgia and Maine) that have enacted expansions to their pension exemption. As noted above, in 2010 Georgia enacted legislation that steadily increases its exemption such that it exempts all retirement income (except for earned income over $4000) for those aged 65 and over beginning in 2016. This expansion was subsequently reversed, when the exemption was capped at its 2012 level of $65,000. Because Georgia already had a very generous exemption for such income this expansion and subsequent retrenching affected only the very top income households. The top panel of Table 9 reports the estimated effects if the expansion had continued to its next step, the $100,000 per person exemption slated for 2013. Not surprisingly, this exercise confirms that only the top 5% of households in 2012 are affected. Nonetheless, the estimated effect of the

expansion (and thus its reversal) on tax revenues is nontrivial. We estimate that Georgia gained $100 million in tax revenues, or 0.67% of total personal income tax revenues, by not moving to the next step of the phase-in. It is important to note, however, that the expansion actually began in 2010 and at a lower pension exemption, $70,000 per couple vs. 130,000 in 2012. The overall revenue effects of this 2010 policy are therefore much larger and reach further down into the income distribution, but are still concentrated at the top. It is only the tax breaks for the very highest income households that were set to change – and thus were reversed – in 2012.

Maine, on the other hand, began with a much more modest exemption and enacted a much more modest increase. Beginning in 2013, Maine's pension exemption was increased from its 2012 level of $12,000 per couple to $20,000 in 2014. Using our 2012 ACS data and TAXSIM, we simulate the revenue and distributional effects of this expansion had it taken place in 2012. Our estimates suggest the greatest proportional tax benefits accrue to the upper-middle part of the distribution, while dollar amounts are not surprisingly largest for top incomes. The estimated effect on tax revenues appears modest at $30 million, but represents 1.4% of all income tax revenues. So while this tax break reaches a much broader swath of the income distribution, it also has larger fiscal consequences.

Next we consider three proposed or enacted *reductions* in tax breaks. While the most far-reaching reduction actually enacted occurred in Michigan in 2011, the policy change has many elements and is phased in over several years by birth cohort. It is therefore difficult to simulate with our analyses. In addition, because it had already been enacted and begun to take effect by 2012, the exercise would be fundamentally different (e.g., comparing the actual to either no policy change or a fully phased in one). We instead choose three more straightforward yet contrasting policy changes that had not yet occurred in 2012. The first is Illinois, which with its complete exemption of pension income is one of the most generous states. In the spring of 2011, it was proposed – and almost immediately squelched by political opposition – that some portion of pension income be subject to tax. Here we conduct a thought exercise to investigate the revenue and tax liability consequences of making all pension income taxable. The

estimated revenue effects are quite substantial, at $1.4 billion and 6.5% of all personal income tax revenues.  The effect on individual households are as expected, with the increased tax liabilities concentrated in the highest income deciles. The tax liability for the lower half of the income distribution increases little (< $150), but given their very low tax liability this represents a sizable proportionate increase.   The upper quartile and especially the top 5% see much larger increases in their tax liabilities and smaller, although still substantial, proportionate increases.

North Carolina is a state that actually enacted a reduction in a senior income tax break, removing its $2000 pension exemption (per person) beginning with the 2014 tax year.  Our estimates show that even the removal of this relatively low exemption level still had only modest effects on the lower half of the income distribution living in the state.  In fact, the increased tax liability is modest throughout the income distribution yet the policy is predicted to yield an increase of $200 million in tax revenues or 1.2% of all income tax revenues.

Finally, we consider the effects of implementing the Kentucky Blue Ribbon Commission's recommendation to reduce the state's generous pension exemption of $41,110 per person to $30,000 per person.  More significantly, however, that lower exemption would be phased out dollar for dollar for those with Kentucky taxable incomes (which exclude SSB) above $30,000.  The bottom of Table 9 reports our estimates of the effects of this reform had it been implemented in 2012.  Personal income tax revenues would have increased by $446 million or 7.5%, which is in the same ballpark as the Commission's current estimate of $485 million.  Our estimates further show that almost all of the additional tax burden is concentrated in the top 5% of the income distribution.  This exercise therefore highlights the significant tax revenues that can result from switching from a very generous pension exemption to a moderately generous one (i.e., switching from the 4th column to the 3rd in Table 5) while also leaving the bottom 95% of the income distribution mostly unaffected.

In sum, while the calculations in Table 9 should be viewed as only illustrative for all of the reasons noted above, these analyses reveal the substantial cost of state income tax breaks for the elderly and how sizable they are to taxpayers, especially those with the highest incomes.

## V. ARE ELDERLY TAX BREAKS GOOD POLICY?

The above analyses make clear that the revenue consequences of federal and state income tax breaks for the elderly are nontrivial. They also make clear that the states are in general more generous to the elderly citizens than the federal government, which is confirmed by our revenue estimates (Tables 6 and 7). The states, on average, could increase their income tax revenues by 7.6% if they removed all of these tax breaks, compared to only 2.83% for the federal government. As the population continues to age, these revenue costs will grow as well. Given the magnitude and likely future growth of their costs, it is logical to ask if such tax breaks are good policy.

One justification frequently given is equity. As we note in our brief history, the desire to protect the low income elderly from financial hardship has been central to arguments in favor of preferential tax treatment. As our analyses make clear, however, the low income elderly receive almost no benefit from these tax breaks because they would pay almost no tax even without them. Ironically, our analyses reveal that some of these elderly are actually harmed by their age because they no longer qualify for the *EITC*. The vast majority of the tax benefits instead accrue to middle- and upper-income households. At the federal level, these benefits arise primarily from the preferential treatment of SSB, which is mostly phased out for the highest income earners. The benefits from state income tax breaks reach much higher into the income distribution, depending on the state. The majority of states do not tax SSB, even for high income households, such that the tax benefits accrue to the highest income households as well. More significantly, a significant number of states offer generous exemptions for pension income *on top of fully exempting social security.* Taken as a whole, it becomes clear that the equity argument for these tax breaks is highly suspect.

Another possible justification is that such tax breaks elicit favorable behavioral responses. However, here too the available evidence, taken from past research and summarized briefly here, casts doubt on this argument. Of significant concern to policymakers for decades has been the declining labor supply and force participation of older individuals. These tax breaks seem unlikely to reverse that trend and, in fact, appear likely to exacerbate them. Page and Conway (forthcoming) provide theoretical and empirical evidence of the labor supply effects of taxing social security benefits. They show that the policy has only an income effect for the highest income individuals because they are taxed on the maximum amount of SSB regardless of how much they work. It therefore leads to an increase in their labor supply, a prediction borne out by their empirical analyses. For middle income individuals, whose taxable SSB depends upon how much they work and earn, the effects are ambiguous because there is a wage effect as well. We note, however, that such wage effects would likely be reduced considerably if the taxation of SSB was simply extended to all households, regardless of income.[22] Applying a similar logic to the pension exemptions suggests that removing or reducing them is likely to lead to an *increase* in labor supply, if anything.

The behavioral effect that appears to be foremost in the minds of most state policymakers appears to be migration, that income tax breaks are necessary to retain or recruit the elderly. This justification appears in the Kentucky Blue Ribbon Commission report (p. 17):

*"While policies vary widely, all state exclusions of some pension income have one of two purposes:*
  • *Protecting the income of those no longer in the workforce*
  • *Economic development – to attract or retain retirees"*

It also appears repeatedly in remarks given by state officials. Some examples include:

*"There is active recruitment by some states to lure retirees to locate in other states. A state's tax burden is one of the top three reasons to move to a state,"*

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[22]Of course, including SSB in taxable income may increase the marginal tax rate (MTR) faced and thus reduce the net wage, just as any other source of income could increase MTR in a progressive tax system. The current policy for taxing social security benefits increases the MTR by 50% or 85% for those in the 'phase in' range.

*-- Testimony by proponents of Missouri bill HB 444 that eliminated income taxes on Social Security benefits. The bill was enacted in 2008.*

"*This tax cut… will help attract retirees to our state and make our economy even stronger,*"

*--Georgia Governor Sonny Perdue promoting legislation that would eliminate all income taxes on retirement income.*

*"I believe that we need to take income tax off retired pensions… We keep the brain power in Maine, we keep whatever estate they have to their name--we keep that in Maine. We have them available to assist our business community. And a very important thing is they don't put a whole lot of burden on your public services."*

*--Maine Governor Paul LePage promoting his current proposal to remove income taxes on all pension income.* [23]

Web sites such as Kiplingers' that list the top ten 'friendly' and 'unfriendly' states for retirees and the fact that retirement planning seminars frequently offer advice on relocating to low tax, low cost states make such concerns seem valid. That most states do not extend their preferential tax treatment to earnings – which Table 4 shows is a significant source of income for the affluent elderly – further suggests that they are attempting to target the *retired,* and thus presumably more mobile, elderly. However, most existing research finds little evidence that tax breaks strongly influence interstate migration decisions of the rich and/or elderly (e.g., Bakija and Slemrod 2004, Conway and Rork 2012a, Young and Varner 2011). The overall rate of interstate migration among the elderly is historically quite low at less than 1 percent per year; moreover, extensive research suggests that the elderly are frequently moving to gain assistance and/or move closer to family (e.g., Walters 2002). All of this evidence strongly

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[23] Sources for these quotes are http://www.davenabity.com/nebraskasissues_liberate.htm, accessed 9/25/08), (http://www.house.mo.gov/billtracking/bills071/sumpdf/HB0444c.pdf, accessed 9/5/08), (http://www.ajc.com/blogs/content/shared-blogs/ajc/georgia/entries/2007/01/29/bill_eliminates.html, accessed 9/25/08), and (http://www.pressherald.com/news/lepage-seeks-boost-for-retirees-by-ending-pension-taxes_2011-08-21.html accessed 1/11/12) respectively.

suggests that this behavioral response is modest at best.  One caveat to that conclusion, however, is that past research uses data that is typically at least ten years old.  As Conway and Rork (2014) point out, studying whether elderly migration behavior has changed in the 21$^{st}$ century is strongly challenged by the discontinuation of the largest and most consistent source of migration data, the decennial census long form.  Still, they provide evidence that elderly migration patterns in recent years are quite similar to that of the past.  This finding suggests that the current-day elderly are not dramatically different from their predecessors and that tax breaks are unlikely to elicit meaningful migration responses.

Moreover, even if migration responds to tax incentives the relatively low incidence casts doubt on the cost effectiveness of such a policy.  To illustrate, consider that 43.1 million people were over age 65 in 2012.  Applying a high rate of interstate migration to that number (1%) yields 431,000 potential migrants nationwide.  An illustrative calculation is that the tax break on SSB is costing the states $44,315 per migrant ($19.1B divided by 431,000) and the tax break on pension income is costing $11,369 per migrant.  All breaks combined are costing $69,837 per migrant.

A final aspect of the migration argument is therefore whether the benefits of recruiting and retaining elderly residents are actually worth incurring these costs. The last line of the quote by the Maine governor provides an enlightening clue – "*…they don't put a whole lot of burden on your public services.*"  We note that this is true only inasmuch that the needs of the elderly are provided by the federal government, especially via Medicare and Social Security.  The current manner in which the US serves its different dependent populations -- the elderly primarily via the federal government versus children and the non-elderly poor via the state and local governments – helps promote competition among the states for this fiscally desirable group of constituents.  Meaningful reform of federal entitlements for the elderly could therefore draw further into the question the wisdom of these tax breaks.

**VI. CONCLUDING REMARKS**

Our goal thus far has been to understand the implications of elderly income tax breaks for both taxpayers and government budgets. Our analyses show that these tax breaks are of substantial size and that they benefit mostly the middle and upper income elderly, rebuking equity justifications for their existence. Our TAXSIM/ACS simulations of removing these tax breaks reveal significant revenue consequences for both federal and state governments, especially the exemption for social security. As these governments search for ways of closing their budget deficits, how likely are they to consider these tax breaks? Does it make sense for them to?

We note that federal policymakers have historically shown a greater willingness to limit or reduce tax breaks to the elderly, especially for the high income elderly and as a part of larger budget reforms. Our analyses suggest that making 85% of social security benefits taxable for all taxpayers affects middle and upper-middle income taxpayers the most. Although a politically difficult reform, it is also one that can generate significant revenues while treating social security more consistently with other forms of retirement income and not imposing burdens on low income households. If history is a guide, however, we doubt that the states would follow even if the federal government enacted this policy – even though the revenue consequences for them are substantial. The majority of states have already failed to follow the federal government in its current taxation of SSB of only high income households. Several states that previously taxed SSB have since repealed their laws.

Rather, the historical tendency of the states has been to offer more and larger tax breaks to the elderly, especially to the highest income elderly. The typical argument is that, without such inducements, the elderly will leave the state for lower tax states. In our opinion, current state competition over the elderly occurs in part because of their federal entitlements – Social Security and Medicare. At present, elderly constituents bring these benefits to the table when they locate in a state and thus "don't put a whole lot of burden on (your) public services." However, these programs are now receiving a good deal

of attention in discussions of federal budget reform.  The possible reduction in these entitlements as well as a growing body of evidence that elderly migration is not as responsive to tax policy as often stated may be causing the tide to finally turn for elderly income tax breaks.  Instead of being anomalies, the recent tax reforms in Michigan and North Carolina may be a bellwether of income tax policy towards the elderly.

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**TABLE 1: 2012 FEDERAL TAX PARAMETERS RELEVANT TO THE ELDERLY**

*Single Taxpayers*

| Marginal Tax Rate | Total Pre-Tax Income | Taxable Income | Dollar Value of Extra Standard Deduction of $1500 if over age 65 | % of Population in Each Income Bracket |
|---|---|---|---|---|
| 0% | 0-9900 | 0 | 0 | 20.29 |
| 10% | 9901-18600 | 0-8700 | 150 | 31.47 |
| 15% | 18601-45250 | 8701-35350 | 225 | 34.37 |
| 25% | 45251-95550 | 35351-85650 | 375 | 10.77 |
| 28% | 95551-188550 | 85651-178650 | 420 | 2.27 |
| 33% | 188551-398250 | 178651-388350 | 500 | 0.76 |
| 35% | 398251+ | 388351+ | 525 | 0.07 |

*Married Taxpayers, Filing Jointly*

| Marginal Tax Rate | Total Pre-Tax Income | Taxable Income | Dollar Value of Extra Standard Deduction of $1200/$2400 if over age 65 | % of Population in Each Income Bracket |
|---|---|---|---|---|
| 0% | 0-19800 | 0 | 0 | 10.44 |
| 10% | 19801-37200 | 0-17400 | 120/240 | 22.50 |
| 15% | 37201-90500 | 17401-70700 | 180/360 | 44.58 |
| 25% | 90501-162500 | 70701-142700 | 300/600 | 14.87 |
| 28% | 162501-237250 | 142701-217450 | 336/672 | 3.98 |
| 33% | 237251-408150 | 217451-388350 | 396/792 | 2.69 |
| 35% | 408151+ | 388351+ | 420/840 | 0.93 |

Notes:

Personal Exemption is $3800 per person.
Standard Deduction is $6100 for singles, $12200 for married.
Adding Personal Exemption and Standard Deduction results in the '0%' bracket
        where people have no taxable income.

Source:  All Households in 2012 ACS with at least one member age 65 or over.

**TABLE 2:  FEDERAL TREATMENT OF SOCIAL SECURITY BENEFITS (SSB)**

Taxation of SSB depends on *combined income* , which is AGI + tax-exempt interest +50% of SSB:

if *combined income* > $25,000/32,000 (single/married), then $.50 of every dollar above
        this amount is added as taxable income until 50% of SSB are subject to tax
        or until the second threshold is reached.
        (This is the **FIRST** threshold, enacted in 1983)

if *combined income* > $34,000/44,000 (single/married),  then $.85 of every dollar above
        this amount is added as taxable income until 85% of SSB are subject to tax.
        (This is the **SECOND** threshold, enacted in 1993)

Examples:

1. Single Individual with $22000 in AGI plus $8000 in SSB.
        Combined Income:   $26,000  ($26000-$25000=$1000 of SSB possibly subject to tax)
        Taxable SSB:        $500  (.5*$1000)

2. Single Individual with $30000 in AGI plus $8000 in SSB.
        Combined Income:   $34,000  (up to $9000 of SSB subject to tax, but only has $8000)
        Taxable SSB:       $4,000  (.5*$8000)

3. Single Individual with $32000 in AGI plus $8000 in SSB
        Combined Income:   $36,000  ($2000 over the second threshold)
        Taxable SSB:       $5,700  (.5*$8000, from the first threshold)
                           (+.85*$2000 from the second threshold)

4. Single Individual with $33294 in AGI plus $8000 in SSB
        Combined Income:   $37,294  ($3294 over the second threshold)
        Taxable SSB:       $6,800  (.5*$8000 + .85*$3294)

                Since $6800 is 85% of SSB, this is the most that will be taxed,
                        even if AGI were to increase.

**TABLE 3: DISTRIBUTION of SOCIAL SECURITY BENEFITS TAXATION AMONGST THE ELDERLY in 2012**

| | Percentage of Elderly Population | Average Income of Bracket | Average Social Security Benefits |
|---|---|---|---|
| **Single Individuals with Combined Income of:** | | | |
| Less than 25000 (and pay no tax on SS benefits) | 82.7 | 17307 | 10960 |
| Between 25000 and 34000 (and pay tax on up to 50% of SS benefits) | 6.3 | 39443 | 12945 |
| Over 34000 but not paying taxes on maximum of 85% of SS benefits | 1.8 | 48959 | 15983 |
| Over 34000 and paying taxes on maximum of 85% of SS benefits | 9.2 | 80595 | 11153 |
| **Married Individuals with Combined Income of:** | | | |
| Less than 32000 (and pay no tax on SS benefits) | 52.4 | 36018 | 20147 |
| Between 32000 and 44000 (and pay tax on up to 50% of SS benefits) | 12.4 | 56099 | 22372 |
| Over 44000 but not paying taxes on maximum of 85% of SS benefits | 5.0 | 66853 | 24298 |
| Over 44000 and paying taxes on maximum of 85% of SS benefits | 30.2 | 124823 | 19404 |

Combined Income consists of AGI + tax-exempt interest + 50% of SS benefits.
Source: All Households in 2012 ACS with at least one member age 65 or over.

**TABLE 4: 2012 INCOME DISTRIBUTION & CHARACTERISTICS OF ELDERLY HOUSEHOLDS FOR THE UNITED STATES**

*Single Taxfilers*

| Percentile | Total Income | Percent of Income from | | | | | | Percent | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Wages | Social Security | Pensions | Dividends | < Age 75 | Age 85+ | Retired | Widowed | Female |
| 0th-5th | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 48.0 | 20.0 | 100.0 | 56.0 | 74.0 |
| 5th-10th | 0-4100 | 4.6 | 71.4 | 13.9 | 10.1 | 48.0 | 20.0 | 95.0 | 53.0 | 72.0 |
| 10th-25th | 4101-10000 | 2.0 | 90.6 | 5.8 | 1.6 | 45.0 | 21.0 | 97.0 | 52.0 | 76.0 |
| 25th-50th | 10001-16800 | 2.2 | 88.7 | 7.2 | 1.9 | 38.0 | 26.0 | 95.0 | 65.0 | 75.0 |
| 50th-75th | 16801-29150 | 6.5 | 67.0 | 21.1 | 5.4 | 41.0 | 24.0 | 87.0 | 65.0 | 72.0 |
| 75th-90th | 29151-50000 | 15.6 | 38.3 | 35.2 | 10.8 | 53.0 | 17.0 | 73.0 | 57.0 | 67.0 |
| 90th-95th | 50001-70000 | 22.4 | 24.2 | 37.0 | 16.5 | 58.0 | 15.0 | 64.0 | 53.0 | 64.0 |
| 95th-99th | 70001-168000 | 34.0 | 14.8 | 32.6 | 18.6 | 63.0 | 13.0 | 52.0 | 47.0 | 58.0 |
| 99th-100th | 168001+ | n/a | n/a | n/a | n/a | 47.0 | 23.0 | 67.0 | 60.0 | 56.0 |
| mean | 25100 | 8.2 | 67.1 | 18.1 | 6.6 | 45.2 | 21.7 | 86.9 | 59.5 | 71.7 |

*Married Households Filing Jointly*

| Percentile | Total Income | Percent of Income from | | | | 1 Member | Both | Both | Both | Neither |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Wages | Social Security | Pensions | Dividends | < Age 65 | < Age 75 | Aged 85+ | Retired | Retired |
| 0th-5th | 0-10400 | 8.1 | 77.4 | 8.5 | 6.1 | 37.0 | 60.0 | 2.4 | 92.7 | 3.7 |
| 5th-10th | 10401-16800 | 7.6 | 83.0 | 7.0 | 2.4 | 30.5 | 54.2 | 2.7 | 86.4 | 1.1 |
| 10th-25th | 16801-28200 | 7.9 | 81.0 | 8.3 | 2.8 | 22.9 | 49.7 | 3.6 | 83.4 | 1.7 |
| 25th-50th | 28201-47200 | 13.2 | 61.7 | 19.8 | 5.4 | 23.6 | 56.3 | 2.7 | 70.0 | 4.4 |
| 50th-75th | 47201-78650 | 23.3 | 38.3 | 30.2 | 8.2 | 30.8 | 66.7 | 1.7 | 53.9 | 11.3 |
| 75th-90th | 78651-132000 | 36.5 | 14.1 | 29.5 | 19.8 | 38.6 | 74.2 | 1.2 | 38.0 | 21.3 |
| 90th-95th | 132001-186800 | 44.4 | 13.7 | 29.8 | 12.1 | 41.1 | 76.9 | 1.2 | 31.7 | 29.2 |
| 95th-99th | 186801-379000 | 39.7 | 6.8 | 21.9 | 38.2 | 36.9 | 72.0 | 1.6 | 36.7 | 25.7 |
| 99th-100th | 379001+ | n/a | n/a | n/a | n/a | 42.3 | 78.8 | 1.0 | 18.3 | 33.3 |
| mean | 66560 | 21.2 | 49.2 | 21.2 | 8.3 | 30.1 | 62.5 | 2.2 | 61.4 | 10.3 |

n/a due to topcoding.  See text for more details.

Source:  All Households in 2012 ACS with at least one member age 65 or over.

# TABLE 5: STATUS of STATE PENSION TAX TREATMENT of MARRIED HOUSEHOLDS FILING JOINTLY as of 2012

| *NO EXEMPTIONS* (14 states) | *$0 to $20,000* (13 states) | | *$20,001 to $60,000* (7 states) | | *over $60,000* (3 states) | | *full exemption* (5 states) |
|---|---|---|---|---|---|---|---|
| AZ | AR [h] | 12,000 | CO [b] | 44,000 | GA [c] | 130,000 | AL[i] |
| CA | IA | 12,000 | DE [c] | 25,000 | KY | 82,220 | HI[j] |
| CT | LA | 12,000 | MD [b] | 54,200 | MI | 94,618 | IL |
| DC [k] | ME [b] | 12,000 | NY | 40,000 | | | MS |
| ID | MN [e] | 12,000 | SC [d] | 30,000 | | | PA |
| KS | MO | 12,000 | TN [f] | 37,000 | | | |
| MA | MT | 7,660 | VA | 24,000 | | | |
| ND | NC | 4,000 | | | | | |
| NE | NJ | 20,000 | | | | | |
| NH | NM [d] | 16,000 | | | | | |
| RI | OK | 20,000 | | | | | |
| UT | OR [g] | 7,500 | | | | | |
| VT | WI | 5,000 | | | | | |
| WV [a] | | | | | | | |

SPECIAL CASES:

1. OH has a pension credit of $200 for pensions of $8000 or more. The credit is reduced for pensions between $500 and $8000

2. Some states phase out exemptions at higher incomes (phase-out range in $1000):
MN (18-42)   MO (32-44)   MT (31.9-35.7)  NJ (100)   NM (30-51)
OR (15-22.5)  TN (37)   VA (75) [l]   WI (30)

3. IN has a retirement credit of $100 that completely phases out once income is above $10000.

[a]: WV eliminated its pension exemption and instead increased age exemption to $8000, which was original pension exemption amount
[b]: limit applies to pension and social security income
[c]: limit applies to pensions, dividends, captial gains, interest, rental income and up to $4000 in earned income.
[d] : exclusion includes all AGI
[e]: exclusion includes all AGI and social security
[f] : interest and dividend income only; all other income is not taxed in TN
[g]: choice of 40% of the federal elderly credit or 9% of (pension - social security benefits)
[h]: use of pension exclusion prohibits use of $23 elderly tax credit
[i]: AL only excludes pensions from a defined benefit (DB) plan.
[j]: HI only excludes pensions from DB plans and employer contributions to defined contribution (DC) plans.
[k]: DC has a $6000 exemption for federal pensions only.
[l]: phase out only holds for persons born on January 1, 1939 or later.
Source: Bakija (2012)

**TABLE 6: 2012 CHANGES IN FEDERAL TAX LIABILITY, by INCOME PERCENTILE and SCENARIO**

*Single Taxfilers*

| Percentile | Total Income | Estimated Tax Liability (current) | AVERAGE DOLLAR CHANGE IN FEDERAL TAX LIABILITY RESULTING FROM | | | | |
|---|---|---|---|---|---|---|---|
| | | | Remove Age | Tax SSB 85% | Tax SSB 100% | Tax SSB 85% & Remove Age | Tax SSB 100% & Remove Age |
| 0th-5th | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5th-10th | 0-4100 | 0 | -7 | 0 | 0 | -2 | -2 |
| 10th-25th | 4101-10000 | 0 | -9 | 0 | 0 | -6 | -6 |
| 25th-50th | 10001-16800 | 7 | -4 | 77 | 205 | 171 | 336 |
| 50th-75th | 16801-29150 | 125 | 20 | 690 | 953 | 862 | 1142 |
| 75th-90th | 29151-50000 | 1546 | 159 | 1120 | 1440 | 1336 | 1670 |
| 90th-95th | 50001-70000 | 5862 | 349 | 311 | 858 | 682 | 1231 |
| 95th-99th | 70001-168000 | 15602 | 378 | 16 | 562 | 394 | 942 |
| | | | | | | | |
| All Single (in billions): | | 31.3 | 1.2 | 7.3 | 11.2 | 7.7 | 12.5 |

*Married Households, filing jointly*

| Percentile | Total Income | Estimated Tax Liability (current) | AVERAGE DOLLAR CHANGE IN FEDERAL TAX LIABILITY RESULTING FROM | | | | |
|---|---|---|---|---|---|---|---|
| | | | Remove Age | Tax SSB 85% | Tax SSB 100% | Tax SSB 85% & remove age | Tax SSB 100% & remove age |
| 0th-5th | 0-10400 | -14 | -7 | 2 | 2 | -5 | -5 |
| 5th-10th | 10401-16800 | -28 | -15 | 13 | 14 | 6 | 8 |
| 10th-25th | 16801-28200 | -10 | -13 | 68 | 202 | 150 | 339 |
| 25th-50th | 28201-47200 | 193 | 15 | 893 | 1258 | 1105 | 1492 |
| 50th-75th | 47201-78650 | 2602 | 207 | 1243 | 1730 | 1517 | 2009 |
| 75th-90th | 78651-132000 | 9590 | 381 | 137 | 826 | 519 | 1228 |
| 90th-95th | 132001-186800 | 22590 | 465 | 6 | 812 | 470 | 1280 |
| 95th-99th | 186801-379000 | 41080 | 406 | 0 | 983 | 406 | 1389 |
| | | | | | | | |
| All Married (in billions): | | 159.5 | 4.0 | 14.9 | 26.2 | 21.0 | 32.8 |
| | | | | | | | |
| All Taxpayers (in billions): | | 190.8 | 5.2 | 22.2 | 37.4 | 28.7 | 45.3 |

Source: All Households in 2012 ACS with at least one member age 65 or over.

**TABLE 7: 2012 AVERAGE STATE INCOME TAX LIABILITY PER ELDERLY PERSON, BY STATE & SCENARIO**

| | Current Law | [1] Tax SSB as other income | [2] Tax Pension as other income | [3] Impose [1] & [2] and Remove Age | % Increase in Elderly Tax Revenue | % Increase in Personal Income Tax Revenue Collected |
|---|---|---|---|---|---|---|
| AL (2) | 914 | 687 | 0 | 677 | 74.1 | 9.3 |
| AZ | 732 | 418 | 0 | 500 | 68.3 | 9.4 |
| AR | 912 | 637 | 174 | 939 | 103.0 | 12.4 |
| CA | 1680 | 468 | 0 | 547 | 32.6 | 4.0 |
| **CO** | 1070 | 345 | 295 | 886 | 82.8 | 7.4 |
| **CT** | 1931 | 592 | 0 | 592 | 30.7 | 3.8 |
| DE | 1023 | 484 | 149 | 1229 | 120.1 | 12.6 |
| DC | 4003 | 684 | 0 | 818 | 20.4 | 3.0 |
| GA | 690 | 515 | 435 | 1513 | 219.3 | 11.7 |
| HI (2) | 2213 | 974 | 0 | 1065 | 48.1 | 7.9 |
| ID | 1163 | 730 | 0 | 855 | 73.5 | 9.2 |
| IL | 961 | 715 | 556 | 1388 | 144.4 | 10.9 |
| IN | 763 | 634 | 0 | 699 | 91.6 | 9.6 |
| **IA** | 996 | 584 | 101 | 941 | 94.5 | 9.2 |
| **KS (1)** | 1429 | 635 | 0 | 737 | 51.6 | 6.3 |
| KY | 659 | 507 | 263 | 1051 | 159.5 | 11.4 |
| LA | 682 | 356 | 87 | 500 | 73.3 | 7.6 |
| ME | 1397 | 514 | 20 | 774 | 55.4 | 8.5 |
| MD | 1708 | 414 | 343 | 1055 | 61.8 | 6.9 |
| MA | 1712 | 723 | 0 | 764 | 44.6 | 5.1 |
| MI | 534 | 650 | 379 | 1213 | 227.2 | 15.6 |
| **MN** | 1564 | 395 | 14 | 571 | 36.5 | 3.6 |
| MS | 532 | 298 | 272 | 790 | 148.5 | 13.2 |
| **MO (1)** | 742 | 302 | 134 | 761 | 102.6 | 9.8 |
| **MT** | 1280 | 370 | 18 | 544 | 42.5 | 6.4 |
| **NE** | 1247 | 309 | 0 | 380 | 30.5 | 3.7 |
| NJ | 1171 | 339 | 18 | 609 | 52.0 | 5.2 |
| **NM** | 1024 | 97 | 0 | 212 | 20.7 | 3.5 |

**TABLE 7 (cont.): 2012 AVERAGE STATE INCOME TAX LIABILITY PER ELDERLY PERSON, BY STATE AND SCENARIO**

| | | ADDITIONAL TAX LIABILITY BY | | | % Increase | % Increase |
| | Current Law | [1] Tax SSB as other income | [2] Tax Pension as other income | [3] Impose [1] & [2] and Remove Age | in Elderly Tax Revenue | in Personal Income Tax Revenue Collected |
|---|---|---|---|---|---|---|
| NY | 1427 | 583 | 310 | 1041 | 73.0 | 7.4 |
| NC | 1441 | 937 | 70 | 1089 | 75.6 | 8.3 |
| **ND** | 456 | 103 | 0 | 129 | 28.3 | 2.6 |
| OH | 732 | 420 | 70 | 567 | 77.5 | 8.1 |
| OK | 645 | 466 | 163 | 765 | 118.6 | 10.3 |
| OR | 2052 | 1126 | 7 | 1392 | 67.8 | 9.3 |
| PA | 554 | 548 | 298 | 864 | 156.0 | 9.9 |
| **RI** | 1312 | 241 | 0 | 241 | 18.4 | 2.9 |
| SC | 817 | 338 | 0 | 1122 | 137.3 | 13.7 |
| **UT** | 1504 | 343 | 0 | 598 | 39.8 | 4.2 |
| **VT** | 1361 | 292 | 1 | 358 | 26.3 | 4.4 |
| VA | 1660 | 577 | 28 | 1159 | 69.8 | 7.3 |
| **WV** | 902 | 284 | 1 | 761 | 84.4 | 10.1 |
| WI | 1230 | 907 | 0 | 926 | 75.3 | 7.6 |
| All States: | 942 | 424 | 110 | 652 | 71.1 | 7.6 |
| Total Revenues: | 42.3B | 19.1B | 4.9B | 30.1B | 71.1 | 7.6 |

Notes:
1. States in bold taxed SSB in 2012. KS taxes SSB if federal AGI is > $75,000, MO is AGI>$85000/100000
2. TAXSIM treats all pensions in AL and HI as taxable; these states exempt specific pension types.
3. All States includes NH and TN, both of which lack broad-based income tax system.
4. The last column is calculated by dividing the estimated increase in revenues by the total amount of revenues estimated for all taxpayers over age 18 in the ACS living in that state.

Source: All Households in 2012 ACS with at least one member age 65 or over.

**TABLE 8:  2012 AVERAGE STATE INCOME TAX LIABILITY PER ELDERLY PERSON, BY STATE & SCENARIO**

| Tax Liability: | Actual | | Additional | | | |
|---|---|---|---|---|---|---|
| Tax Law: | Current | | Tax SSB & Pension as Other Income No Age Exemptions | | | |
| Population: | Current State Elderly | All US Elderly | Current State Elderly | All US Elderly | % Increase Current Elderly | % Increase All US Elderly |
| AL (2) | 914 | 1184 | 677 | 690 | 74.1 | 58.3 |
| AZ | 732 | 772 | 500 | 471 | 68.3 | 61.0 |
| AR | 912 | 1345 | 939 | 1062 | 103.0 | 79.0 |
| CA | 1680 | 1216 | 547 | 536 | 32.6 | 44.1 |
| **CO** | 1070 | 848 | 886 | 800 | 82.8 | 94.3 |
| **CT** | 1931 | 1285 | 592 | 486 | 30.7 | 37.8 |
| DE | 1023 | 975 | 1229 | 979 | 120.1 | 100.4 |
| DC | 4003 | 1719 | 818 | 935 | 20.4 | 54.4 |
| GA | 690 | 796 | 1513 | 1584 | 219.3 | 199.0 |
| HI (2) | 2213 | 1766 | 1065 | 1029 | 48.1 | 58.3 |
| ID | 1163 | 1375 | 855 | 859 | 73.5 | 62.5 |
| IL | 961 | 982 | 1388 | 1356 | 144.4 | 138.1 |
| IN | 763 | 1008 | 699 | 637 | 91.6 | 63.2 |
| **IA** | 996 | 1318 | 941 | 915 | 94.5 | 69.4 |
| **KS (1)** | 1429 | 1505 | 737 | 653 | 51.6 | 43.4 |
| KY | 659 | 1154 | 1051 | 1221 | 159.5 | 105.8 |
| LA | 682 | 807 | 500 | 614 | 73.3 | 76.1 |
| ME | 1397 | 1574 | 774 | 835 | 55.4 | 53.0 |
| MD | 1708 | 1050 | 1055 | 919 | 61.8 | 87.5 |
| MA | 1712 | 1430 | 764 | 803 | 44.6 | 56.2 |
| MI | 534 | 785 | 1213 | 1117 | 227.2 | 142.3 |
| **MN** | 1564 | 1829 | 571 | 503 | 36.5 | 27.5 |
| MS | 532 | 746 | 790 | 952 | 148.5 | 127.6 |
| **MO (1)** | 742 | 1006 | 761 | 812 | 102.6 | 80.7 |
| **MT** | 1280 | 1641 | 544 | 532 | 42.5 | 32.4 |
| **NE** | 1247 | 1549 | 380 | 358 | 30.5 | 23.1 |
| NJ | 1171 | 846 | 609 | 521 | 52.0 | 61.6 |
| **NM** | 1024 | 1113 | 212 | 238 | 20.7 | 21.4 |

**TABLE 8 (cont.):  2012 AVERAGE STATE INCOME TAX LIABILITY PER ELDERLY PERSON, BY STATE AND SCENARIO**

| Tax Liability: | Actual | | Additional | | | |
|---|---|---|---|---|---|---|
| Tax Law: | Current | | Tax SSB & Pension as Other Income No Age Exemptions | | | |
| Population: | Current State Elderly | All US Elderly | Current State Elderly | All US Elderly | % Increase Current Elderly | % Increase All US Elderly |
| NY | 1427 | 1171 | 1041 | 1027 | 73.0 | 87.7 |
| NC | 1441 | 1782 | 1089 | 1060 | 75.6 | 59.5 |
| **ND** | 456 | 534 | 129 | 135 | 28.3 | 25.3 |
| OH | 732 | 968 | 567 | 589 | 77.5 | 60.8 |
| OK | 645 | 964 | 765 | 815 | 118.6 | 84.5 |
| OR | 2052 | 2099 | 1392 | 1314 | 67.8 | 62.6 |
| PA | 554 | 640 | 864 | 876 | 156.0 | 136.9 |
| **RI** | 1312 | 1216 | 241 | 256 | 18.4 | 21.1 |
| SC | 817 | 976 | 1122 | 1159 | 137.3 | 118.8 |
| **UT** | 1504 | 1484 | 598 | 527 | 39.8 | 35.5 |
| **VT** | 1361 | 1362 | 358 | 331 | 26.3 | 24.3 |
| VA | 1660 | 1149 | 1159 | 1107 | 69.8 | 96.3 |
| **WV** | 902 | 1496 | 761 | 776 | 84.4 | 51.9 |
| WI | 1230 | 1598 | 926 | 823 | 75.3 | 51.5 |

Notes:

1. States in bold taxed SSB in 2012.  KS taxes SSB if federal AGI is > $75,000, MO is AGI>$85000/100000

2.  TAXSIM treats all pensions in AL and HI as taxable; these states exempt specific pension types.

Source:  All Households in 2012 ACS with at least one member age 65 or over.

**TABLE 9 : SIMULATED IMPACT OF STATE POLICIES ON MARRIED HOUSEHOLDS IF ENACTED IN 2012**

**GA:**   **NEW LAW FOR 2016 (passed in 2010, ultimately repealed in 2012)**

increase retirement income exemption from $65K to $100K, as phase in to full exemption

tax revenue **decrease** of **$100M**, represents 0.67**%** decrease in total collections

an average decrease of:

$0  (0%) for 25th percentile (9401-18300)

$0 (0%) for 50th percentile (18301-36300)

$0 (0%) for 75th percentile (36301-64600)

$191 (8%) for 95th percentile (108201-153800)

$341 (6%) for 99th percentile (153801-297700)

**ME:**   **ENACT 2014 CHANGE EARLIER**

increase pension exemption to $10000 per person

tax revenue **decrease** of **$30M**, represents 1.4**%** decrease in total collections

an average decrease of:

$0 (0%) for 25th percentile (12200-22000)

$18 (37%) for 50th percentile (22001-37600)

$89 (22%) for 75th percentile (37601-62000)

$405 (7%) for 95th percentile (101001-154400)

$275 (2%) for 99th percentile (154401-230000)

**IL:**   **THOUGHT EXERCISE**

eliminate exemption of all pension income from taxation

tax revenue **increase** of **$1.4B**, represents 6.5**%** increase in total collections

an average increase of:

$21 (1106%) for 25th percentile (10701-20500)

$142 (142%) for 50th percentile (20501-38400)

$554 (122%) for 75th percentile (38401-68800)

$2031 (67%) for 95th percentile (116101-164200)

$2201 (33%) for 99th percentile (164201-294900)

**NC:**   **ENACT 2014 CHANGE EARLIER**

eliminate $2000 exemption for pension income from taxation

tax revenue **increase** of **$200M**, represents 1.2**%** increase in total collections

an average increase of:

$3 (37%) for 25th percentile (10801-19200)

$24 (23%) for 50th percentile (19201-36400)

$96 (15%) for 75th percentile (36401-63840)

$169 (3%) for 95th percentile (103881-140800)

$156 (2%) for 99th percentile (140801-279000)

**KY:**   **ENACT BLUE RIBBON COMMISSION RECOMMENDATION**

reduce pension exemption to $30000 per person w/ $ for $ phaseout

tax revenue **increase** of **$446M**, represents 7.5% increase in total collections

an average increase of:

$0 (0%) for 25th percentile (9701-17400)

$0 (0%) for 50th percentile (17401-32200)

$14 (5%) for 75th percentile (32201-53100)

$545 (18.6%) for 95th percentile (84401-113900)

$1247 (22.2%) for 99th percentile (113901-238000)

Source:  All Households in 2012 ACS with at least one member age 65 or over.

**APPENDIX A: INCOME VARIABLES IN ACS and HOW THEY ARE USED IN TAXSIM**

| Income Type | ACS Variable | Definition | TAXSIM | TAXSIM ENTRY |
|---|---|---|---|---|
| Wage Income | INCWAGE | pre-tax wage and salary income | wage income | 7 & 8 |
| Social Security Benefits | INCSS | pre-tax income from social security as well as US gov't railroad. | gross social security benefits | 12 |
| Pension | INCRETIR | pre-tax retirement, survivor, disability pension income (non SS) | taxable pensions | 11 |
| Dividends | INCINVST | pre-tax money received in the form of income from an estate/trust, interest, dividends, royalties and rents | qualified dividends | 9 |
| Total Income | Sum of INCWAGE, INCSS, INCRETIR, INCINVST | | | |

Other Variables

| | | | | |
|---|---|---|---|---|
| Age | AGE | age | Age exemptions | 6 |
| Marital Status | MARST | each person's current marital status | Anyone married is consider to file jointly | 4 |

All taxfilers are assumed to not itemize, due to lack of information in ACS.
Sample weights provided by ACS are used to generate national numbers.

Overall sample size in 2012 ACS is 335716 married households with at least one member age 65
and an additional 235241 single elderly individuals