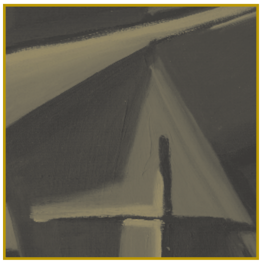
Tax Benefits for the Elderly

Rudolph G. Penner



THE RETIREMENT PROJECT

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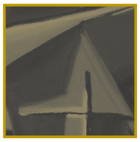

ABOUT THE SERIES

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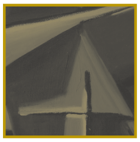

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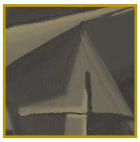
Tax Benefits for the Elderly



DOMESTIC SPENDING IS DOMINATED BY programs devoted to the elderly. Over half of domestic spending outside of interest goes to people 65 and older. This spending is complemented by special tax breaks; for example, in 1998 every senior citizen received an extra standard deduction of $850. In addition, the value of Social Security benefits is enhanced for low- and moderate-income couples, who receive them tax free, or for singles with incomes between $25,000 and $34,000 and couples with incomes between $32,000 and $44,000, who receive 50 percent or more of their benefits tax free. Singles with incomes above $34,000 and couples above $44,000 receive at least 15 percent of their benefits tax free. There is also a nonrefundable tax credit for low-income individuals who receive the bulk of their retirement income in taxable form, but this is rarely used and will not be analyzed here.

The retirement of the baby boomers and continuing increases in life expectancy will require reforms that slow the growth of benefits for the elderly and will also probably significantly increase tax burdens on workers. Given this reality, it may be time to reconsider the tax advantages now enjoyed by senior citizens, many of whom are quite affluent.

The value of tax concessions to the elderly was small relative to the $376 billion spent on Social Security and the $211 billion spent on Medicare in fiscal year 1998. The exclusion of the Social Security benefits as taxable income for retired workers is most important by far, reducing 1998 revenues by $16.8 billion.[1] The extra standard deduction cost only $1.7 billion, presumably because the exclusion of such a large portion of Social Security benefits keeps many of the elderly from being taxed, and because some who are taxed itemize their deductions. The special tax credit for the elderly is worth only $40 million.[2] Although the special tax provisions affecting the elderly impose relatively small revenue losses, they are often quite significant for middle-class and affluent elderly taxpayers.

States and localities also provide an array of tax benefits for the elderly. Practices vary greatly among the states. Many do not tax all or any pension income, and many have special homestead exemptions and circuit breakers that ease the burden of state and local property taxes. Such property tax relief is often available only to the elderly and disabled, although some states provide relief to other property owners and renters as well. Many states that have income taxes also provide an extra standard deduction to senior citizens, and many totally exempt Social Security benefits.

The elderly also receive substantial Medicare and Medicaid health benefits that are not taxed at the federal or state level even though such benefits could be considered part of income for the elderly. However, this does not appear on the official list of tax expenditures and will not be considered here. Some policymakers have suggested taxing the subsidy associated with Part B Medicare insurance for physician services, a change that would be relatively easy to compute and to attribute to individuals.

ARE TAX PREFERENCES FOR THE ELDERLY JUSTIFIED?

Obviously, younger taxpayers have to bear higher tax burdens than they would if fewer tax concessions were provided to the elderly. The rationale for this particular transfer from young to old is far from clear, especially since so many elderly have higher incomes than younger taxpayers. The tax concessions can be large in absolute terms for affluent taxpayers. Moreover, the preferences can also be erratic because they are dependent on the composition of a taxpayer's income. An affluent elderly person receiving income from nonpension sources, such as interest and dividends from regular investment accounts, is fully taxed in most states, whereas someone receiving the same income from a pension fund often gets sizable tax breaks. Anomalies in the way Social Security benefits are brought into the federal income tax base result in different taxpayers with the same total income facing quite different tax burdens.

Generally, such tax concessions, which are neither targeted nor equitable, seem like a strange way to provide assistance to the elderly. However, reforming them is likely to be as difficult as reforming Social Security and Medicare. Not only are the elderly an important voting bloc, they are also a popular group with the rest of the population. They are often people's grandparents, and few begrudge them a monetary gift toward the end of their lives. However, it must be asked: How much is enough? Perhaps some elderly, especially the more affluent, could get along with fewer financial perks.

ISSUES RELATED TO THE TAXATION OF SOCIAL SECURITY BENEFITS AND OTHER PENSIONS

Currently, the method for phasing in the taxation of Social Security benefits depends on one's non–Social Security income plus one-half of Social Security benefits. This often leads to the peculiar result that a person receiving one dollar extra in non–Social Security income is penalized more than a person receiving an extra dollar in benefits. For example, imagine two couples who have $50,000 of total income each. The first has $20,000 of Social Security benefits and $30,000 of other income, while the second has $10,000 of benefits and $40,000 of other income. The formula for determining taxable income in the two cases is complicated and will not be explained here, but it requires that the former couple include $4,000 or 20 percent of benefits in taxable income, while the latter couple must include $5,850 or 58.5 percent. This makes little sense. However, once a taxpayer has sufficient income to bring fully 85 percent of benefits into the tax base, it no longer matters how the income is derived.

It is commonly said that if Social Security benefits were taxed like ordinary pensions, at least 85 percent of the benefit would be put in the tax base; the other 15 percent is an approximation of principal originally financed from after-tax income. The assumption that 85 percent should be taxed underlies the administration's estimate of the revenue loss associated with the special tax treatment of benefits. But this approach to the problem is extremely casual and misleading. The proper approach to taxing benefits is far from clear.

According to one interpretation, Social Security benefits resemble transfer payments more than pensions. Some transfer payments, such as unemployment insurance, are fully taxed, while other types, such as welfare benefits, are not taxed at all. Social Security benefits may resemble transfer payments and payroll taxes may be considered general revenues, because the relationship between paid taxes and expected benefits received is very loose.

Many factors loosen this link. Pension levels depend on earnings levels and not on the tax rate paid on the earnings, which has grown greatly over time, so that the ratio of the present value of one's contributions to expected benefits depends crucially on when one worked and how earnings varied over a lifetime. With private defined benefit plans, the link between contributions and benefits can also be loosened by specific rules, but the link is generally looser with Social Security. With Social Security, the link is further loosened because the system pays a higher rate of return to lower lifetime earners. Family status also matters. Dependent spouses who never contributed can receive 50 percent of the benefit of the principal earner, or 100 percent if the principal earner dies. Conversely, the lower-earning spouse in a two-earner couple may receive very little extra benefit despite substantial contributions.

At the other extreme, Social Security might be considered analogous to a private pension plan. Pensions are given special treatment by the federal income tax system. Different types of pension plans operate under a range of rules and are advantaged to varying degrees, but, as a general rule, pensions financed by contributions that were tax deductible are taxed when received.[3] Pensions financed by contributions out of after-tax income, such as pensions financed by a Roth IRA, are not taxed.

Under some variants of a pure consumption tax, all saving would be treated in the same way that we now treat a considerable portion of pension saving. If the same philosophy were applied to the taxation of Social Security, approximately one-half of the benefit would be tax free, because employers receive a tax deduction for the half of the payroll tax that they pay whereas employees pay their half out of after-tax income.[4]

Tax laws affecting both private pensions and transfer payments are sufficiently complex that an analogue can be found for almost any approach to taxing Social Security. Given that there is no consistent tax policy that can be applied, there is a strong argument for basing the policy decision on the overall needs of the budget and the transfer system. The elderly receive a very large share of public resources, and the growth of benefits will have to be slowed in the future if the nation is to avoid either very high tax rates or dangerous levels of borrowing. The full taxation of benefits provides an indirect approach to lowering the growth of benefits by applying a type of means test. Thus, the full taxation of benefits can be considered to be as much a Social Security policy as a tax policy. This is an equitable approach to easing the economic burden imposed on future workers by an aging population.

Under current law, the revenues from taxing Social Security benefits are deposited in the Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare trust funds. In no other instance is income tax revenue earmarked in this manner. Moreover, the amounts transferred to the trust fund are estimated liberally. Benefits are assumed to be the last addition to income and therefore taxed at the taxpayer's highest marginal rate. It would be equally legitimate to assume that benefits were taxed at the lowest or average marginal rate facing the taxpayer.

Politically, earmarking probably means that future benefits will be higher than they would be otherwise, because the transfer adds to the financial resources of the trust fund and postpones its bankruptcy. This is a rare explicit public transfer from current to future retirees.

ANALYTIC APPROACH

The analysis presented here provides specific examples of the tax advantages enjoyed by couples age 65 and over. These advantages are compared to those of nonelderly couples whose income is received in fully taxable form—wages, salaries, interest, and dividends. A tax advantage is also provided to recipients of Social Security pensions or disability benefits who are under 65, but they do not receive the extra federal standard deduction. The nonelderly couples examined in this analysis are assumed not to have any Social Security benefits.

The following discussion focuses on relatively affluent couples, not because they are typical of the retired population, but because tax benefits remain significant in the middle and upper ranges of the income distribution. It is these benefits that should be subjected to careful scrutiny.

Only couples are considered here. Unmarried individuals generally receive smaller absolute tax benefits than couples with comparable incomes, although those benefits are still significant. The single elderly tend to be much less affluent than couples. The median single income in 1995 was only $13,074, compared with a couple's median income of $30,092. For low-income taxpayers, whether they are single or a couple, the size of the tax preference relative to total income depends mainly on the share of income received from Social Security, since benefits are not taxed at all at lower income levels.

Because the size of the tax advantages enjoyed by the elderly is so dependent on the composition of income, it is important to choose cases that are grounded in reality. In selecting assumptions regarding the composition of income, the analysis was guided by the Statistics of Income, but the data show great diversity in the way that income is received by the elderly. It is difficult to find anyone who can be considered "typical." The chosen cases, described in table 1, show couples with significant income in all the basic income categories.[5]

The analysis separated couples with low work earnings from those who had substantial earnings. This was done because it was believed—before the data were examined—that those who were not mostly retired (that is to say, who earned more than the Social Security earnings limit) would have much lower Social Security benefits and, therefore, much lower tax preferences. Surprisingly, those who reported significant earnings from current work also reported significant Social Security benefits. Indeed, at comparable income levels, benefits for those who were working were only slightly lower than benefits for those who were mostly retired.

In 1995, a worker lost one dollar in Social Security benefits for every three dollars earned above $11,280. Nevertheless, couples with high earnings can receive high benefits if one member of the couple is retired and receiving benefits while the other is working, or if the worker is older than 69 (at which time the earnings test is no longer applied). In addition, if it is assumed that a person with high earnings at age 65 or above is also likely to have had high earnings when they were younger, it is probable that even the highest-earning case examined in this analysis ($40,556) would have some benefits left after the earnings test is applied; those benefits would be added to whatever benefits were received by a retired spouse. Or both spouses could be working, in which case the total exempt amount is $22,560 and the benefit

TABLE 1.

Sources of Income for Couples Age 65 and Older

	Low Earners				High Earners		
Sources of Income	**Couple 1 ($)**	**Couple 2 ($)**	**Couple 3 ($)**	**Couple 4 ($)**	**Couple 5 ($)**	**Couple 6 ($)**	**Couple 7 ($)**
Earnings	4,251	2,982	2,782	3,638	19,027	27,412	40,556
Pensions/Annuities	9,213	13,680	20,982	27,128	5,582	11,045	19,219
Interest and Dividends	4,240	5,586	11,764	20,272	1,331	3,628	8,836
Social Security	10,619	14,380	15,825	16,334	13,540	14,762	14,962
Total Income	28,323	36,628	51,353	67,372	39,480	56,847	83,573

Source: Author's calculations.

TABLE 2.

Federal Income Tax Liabilities of Low- and High-Earning Couples, 1998

		Tax Liability			Difference as
		Age 65 and Older, Retired	Under 65, Not Retired	Difference in Tax Liability	Percentage of Income
Low Earners	**Income**	**($)**	**($)**	**($)**	**(%)**
Couple 1	$28,323	529	2,374	(1,845)	–6.5
Couple 2	$36,628	1,204	3,619	(2,415)	–6.6
Couple 3	$51,353	4,054	5,831	(1,777)	–3.5
Couple 4	$67,372	8,698	9,860	(1,162)	–1.7
High Earners					
Couple 5	$39,480	1,811	4,046	(2,235)	–5.7
Couple 6	$56,847	5,779	6,900	(1,121)	–2.0
Couple 7	$83,573	13,290	14,396	(1,106)	–1.3

Source: Author's calculations.

loss to those with earnings of $40,556 is only about $6,000. It should be noted, however, that there are not many couples in the high-earning category. It is rare for people 65 or over to have substantial earnings from work. In 1996, 83 percent of elderly men and 91 percent of elderly women were completely retired.

EXAMPLES

For the purposes of this analysis, seven cases were evaluated: four couples 65 or over who were mostly retired and three couples with substantial earnings from work. The latter naturally had higher incomes than those who were mostly retired.

Federal taxes

Table 2 examines the federal 1998 tax burdens of elderly couples taking the standard deduction, compared with younger couples with the same total income. The tax preference for elderly couples who itemize is lower. However, most elderly take the standard deduction. This is partly because their standard deduction is more generous than that of younger taxpayers, but it is also because the elderly are likely to have fewer potential itemized deductions. They are likely to have repaid a large portion or all of their mortgages, and they may not have significant state and local income tax or property tax deductions because of tax concessions to be discussed later. Among low earners in the $20,000 to $30,000 class, 90 percent take the standard deduction. The percentage taking the standard deduction falls as income rises, but 62 percent still take the standard deduction in the $60,000 to $70,000 class. Among high earners, 93 percent take the standard deduction in the $30,000 to $40,000 class, falling to 68 percent in the $50,000 to $60,000 class and 57 percent in the $60,000 to $70,000 class. A substantial majority itemizes in the above $80,000 class, but only about 15 percent of elderly couples are in that class.

For couples with income below $44,000, where a substantial portion of Social Security benefits are tax free, the federal tax preference is substantial, amounting to 6.6 percent of income for the low-earning couple with $36,628 in total income and 5.7 percent for the high-earning couple with $39,480 of income. The relative value of the preference diminishes as income rises and more of Social Security benefits are taxed, but in absolute terms, the benefit is still a healthy $1,162 for the low-earning couple with $67,372 in income and $1,106 for the high earners with $83,573 in income. These estimates of the tax preference somewhat overstate the tax reduction for those who would have chosen to itemize in the absence of the extra standard deduction for the elderly.

State taxes

Table 3 describes the characteristics of state income tax systems that favor the elderly, not including special income tax relief provided for state and local property taxes. Tables 4 through 7 illustrate the value of the income tax relief provided by 35 states and the District of Columbia with income taxes for four of the couples in table 1—low earners with total incomes of $28,323 and $67,372 and high earners with total incomes of $39,480 and $83,573.

In all cases, Hawaii is the most generous, providing a benefit of $4,313 for the low-earning couple with

$67,372 in total income (table 5) and $3,625 for the high-earning couple with $83,573 (table 7). These amounts are equivalent to 6.4 and 4.3 percent of income, respectively. The generosity stems from a significant extra standard exemption for the elderly and the total exclusion of pensions, annuities, and Social Security benefits. The value of the tax preference is also enhanced by high marginal tax rates, implying that the tax burden on younger people is quite heavy. Although Hawaii stands out, nine states provide benefits worth more than $1,000 or 3.5 percent of income to the low-earning couple at $28,323 of income, while 18 states provide similar absolute benefits to the high-earning couple with $83,573 of income.

When federal and state preferences are combined, the total benefit in Hawaii for a low-earning couple with $67,372 is $5,475 or 8.1 percent of income. That is to say, their tax liability is reduced by 36 percent. In South Carolina, the same couple would receive a benefit of $4,032 or 6.0 percent of income. Their tax burden would be 30 percent lower than that imposed on a younger couple. In Georgia, the benefit is $2,182 or 3.2 percent of income (tables 2 and 5). For the high-earning couple with $83,573 in total income, the comparable combined tax reductions are 5.6 percent of income in Hawaii, 4.6 percent in South Carolina, and 2.5 percent in Georgia (tables 2 and 7). Although the percentage benefit remains significant at very high income levels, the system tends to be progressive. For the $28,323 low-earning couple, the comparable reductions as a percentage of income are 12.1 percent in Hawaii, 9.8 percent in Georgia, and 9.2 percent in South Carolina.

Property tax relief

Many states provide income tax relief related to property taxes paid at the state and local levels. Often, the relief is restricted to the elderly, which can be defined as being as young as age 61, as is the case in Washington. The disabled often also qualify.

There are two types of relief. The first is often referred to as a circuit breaker and is confined to taxpayers with low incomes. For example, Connecticut, Nebraska, New Jersey, Ohio, and Washington all have special provisions of this type focused on the elderly, but in all cases the relief phases out below the lowest income level considered in this analysis. The second type of relief provides a property tax exemption that does not depend on income. Alabama, Kentucky, Mississippi, South Carolina, and West Virginia have provisions of this type targeting on the elderly. For example, an exemption of assessed value up to $20,000 is provided in West Virginia. The average residential property tax rate in the state is about 1.2 percent, so that the amount of relief for average property owners is $240.

Generally, property tax relief consists of relatively small concessions compared with the income tax relief considered earlier.

CONCLUSIONS

Both the tax and spending side of public budgets tend to be very generous to the elderly, even to those whose income is high relative to that of the typical younger family. Although one can concoct rationales for Social Security and Medicare[6] providing generous benefits to the affluent, it is harder to develop a conceptual foundation for tax preferences for the elderly. Such preferences do not fit within the normative concepts of vertical and horizontal equity that are supposed to guide the formation of tax policy, and one does not need an economic incentive to grow old. The preferences are seldom debated publicly, but clearly, they deserve critical scrutiny.

TABLE 3.

Selected Characteristics of State Income Tax Systems (Tax Year 1998)

State	Income Basis	Additional Exemption/Deduction for the Elderly (joint filers) ($)	Additional Credit for the Elderly (joint filers) ($)	Private Pension/Retirement Exclusion (joint filers)	Social Security Benefits Exemption	Number of Tax Brackets	Low Rate (%)	High Rate (%)
Arizona	AGI	4,200	—	—	Yes	5	2.870	5.040
California	AGI	—	140	—	Yes	6	1.000	9.300
Colorado	TI	—	—	$20,000 to $40,000[a]	Yes	1	5.000	5.000
Connecticut	AGI	—	—	—	No	2	3.000	4.500
Delaware	AGI	2000 (+ 4,000)[b]	200	$3,000 maximum	Yes	7	2.600	6.400
District of Columbia	AGI	2,740	—	—	Yes	3	6.000	9.500
Georgia	AGI	2,600	—	$12,000 maximum	Yes	6	1.000	6.000
Hawaii	AGI	2,080	—	All pension/annuity	Yes	8	1.600	8.750
Idaho	AGI	1,700	—	—	Yes	8	2.000	8.200
Illinois	AGI	2,000	—	All pension/annuity	Yes	1	3.000	3.000
Indiana	AGI	2,000	80–140[c]	—	Yes	1	3.400	3.400
Iowa	AGI	—	40	$10,000 maximum	No	9	3.600	8.980
Kansas	AGI	1,400	—	—	No	3	4.100	6.450
Kentucky	AGI	—	40	$35,000 maximum	Yes	5	2.000	6.000
Louisiana	AGI	—	40	$12,000 maximum	Yes	3	2.000	6.000
Maine	AGI	4,800	—	—	Yes	4	2.000	8.500
Maryland	AGI	2,000	—	$15,900 maximum[d]	Yes	4	2.000	4.850
Michigan	AGI	1,800	—	$67,620 maximum	Yes	1	4.400	4.400
Minnesota	TI	12,000 maximum[e]	—	—	No	3	6.000	8.500
Missouri	AGI	8,800	—	—	No	10	1.500	6.000
Montana	AGI	3,160	—	$3,600 maximum[f]	Yes	10	2.000	11.000

State	Income Basis	Additional Exemption/Deduction for the Elderly (joint filers) ($)	Additional Credit for the Elderly (joint filers) ($)	Private Pension/Retirement Exclusion (joint filers)	Social Security Benefits Exemption	Number of Tax Brackets	Low Rate (%)	High Rate (%)
Nebraska	AGI	1,700	—	—	No	4	2.620	6.990
New Mexico	AGI	8,000 maximum[g]	—	—	No	7	1.700	8.200
New York	AGI	—	—	$40,000 maximum	Yes	5	4.000	6.850
North Carolina	TI	1,200	—	$4,000 maximum	Yes	3	6.000	7.750
North Dakota	TI	—	—	—	No	8	2.670	1.200
Ohio	AGI	40	50	$25 to $200 credit	Yes	9	6.730	6.799
Oklahoma	TI	2,000	—	$4,400 maximum[h]	Yes	8	5.000	6.750
Oregon	TI	2,400	—	9% maximum credit[i]	Yes	3	5.000	9.000
Rhode Island	FL	1,700	—	—	No		(25.6% of federal liability)	
South Carolina	TI	23,000	—	$10,000	Yes	6	2.500	7.000
Utah	TI	1,700	—	$15,000[j]	No	6	2.300	7.000
Vermont	FL	—	—	—	No		(25% of federal liability)	
Virginia	AGI	25,600[k]	—	—	Yes	4	2.000	5.750
West Virginia	AGI	16,000	—	—	No	5	3.000	6.500
Wisconsin	AGI	—	50[l]	—	No	3	4.770	6.770

Source: Individual state tax laws.
AGI = Federal Adjusted Gross Income; TI = Federal Taxable Income; FL = Federal Income Tax Liability.
Notes: States using TI as a starting point implicitly recognized an additional $1,700 standard deduction at the federal level.

[a] Based on allocation of income between spouses. Social Security benefits are included on prorated basis in income calculation for the exclusion.
[b] $4,000 exemption for those with AGI (minus pension and Social Security income) under $20,000 and earned income under $5,000.
[c] Limit less than $10,000 income.
[d] Based on Social Security benefits.
[e] Limit $42,000 AGI and $12,000 in nontaxable Social Security income plus Railroad Retirement income plus Schedule R income.
[f] Phased out between $30,000 and $31,800 income
[g] Phased out between $30,000 and $51,000 income.
[h] Limit less than $25,000 income.
[i] Limit less than $45,000 income (minus Social Security benefits) or $15,000 in Social Security benefits.
[j] Phased out above $32,000.
[k] Includes $24,000 deduction and additional $1,600 exemption.
[l] Phased out for AGI above $40,000.

TABLE 4.

State Income Tax Liabilities for Low-Earning Couples Age 65 and Older Compared with Those for Younger Couples, Income Level $28,323 in 1998

	Tax Liability/(Tax Refund)			
State	Age 65 and Older ($)	Under Age 65 ($)	Difference in Tax Liability ($)	Difference as Percentage of Income (%)
Hawaii	49	1,641	(1,592)	–5.6
Oregon	112	1,478	(1,366)	–4.8
Wisconsin	0	1,322	(1,322)	–4.7
District of Columbia	618	1,930	(1,312)	–4.6
Maryland[a]	231	1,477	(1,246)	–4.4
Kentucky	81	1,242	(1,161)	–4.1
Delaware	0	1,134	(1,134)	–4.0
Virginia	0	1,037	(1,037)	–3.7
Iowa	0	1,012	(1,012)	–3.6
Michigan	48	1,000	(952)	–3.4
New York[b]	105	1,054	(949)	–3.4
Georgia	(10)	937	(947)	–3.3
Utah	0	909	(909)	–3.2
Oklahoma	137	988	(851)	–3.0
Minnesota	129	951	(822)	–2.9
Montana	140	952	(812)	–2.9
Idaho	101	889	(788)	–2.8
South Carolina	0	775	(775)	–2.7
Louisiana	0	725	(725)	–2.6
North Carolina	392	1,100	(708)	–2.5
West Virginia	173	874	(701)	–2.5
Colorado	(284)	403	(687)	–2.4
Illinois	117	772	(655)	–2.3
Missouri	123	762	(639)	–2.3
Rhode Island	143	641	(498)	–1.8
North Dakota	167	663	(496)	–1.8
Arizona	0	487	(487)	–1.7
Kansas	144	624	(480)	–1.7
Vermont	132	594	(462)	–1.6
Maine	83	534	(451)	–1.6
Nebraska	95	526	(431)	–1.5
Indiana	466	895	(429)	–1.5
Ohio	223	624	(401)	–1.4
New Mexico	0	387	(387)	–1.4
California	0	217	(217)	–0.8
Connecticut	0	32	(32)	–0.1

Source: Author's calculations.

[a] Includes Baltimore City taxes.

[b] Includes New York City taxes.

TABLE 5.

State Income Tax Liabilities for Low-Earning Couples Age 65 and Older Compared with Those for Younger Couples, Income Level $67,372 in 1998

State	Tax Liability/(Tax Refund) Age 65 and Older ($)	Under Age 65 ($)	Difference in Tax Liability ($)	Difference as Percentage of Income (%)
Hawaii	1,100	5,413	(4,313)	–6.4
South Carolina	635	3,505	(2,870)	–4.3
Kentucky	1,099	3,802	(2,703)	–4.0
District of Columbia	3,640	5,639	(1,999)	–3.0
Michigan	726	2,718	(1,992)	–3.0
New York[a]	3,130	5,064	(1,934)	–2.9
Iowa	2,679	4,371	(1,692)	–2.5
Virginia	1,607	3,283	(1,676)	–2.5
Oregon	3,287	4,931	(1,644)	–2.4
Idaho	2,527	3,993	(1,466)	–2.2
Louisiana	735	2,134	(1,399)	–2.1
Illinois	579	1,943	(1,364)	–2.0
Maryland[b]	3,004	4,358	(1,354)	–2.0
California	1,111	2,405	(1,294)	–1.9
North Carolina	2,575	3,804	(1,229)	–1.8
Colorado	986	2,192	(1,206)	–1.8
Oklahoma	2,577	3,721	(1,144)	–1.7
Georgia	2,257	3,277	(1,020)	–1.5
Delaware	3,100	3,814	(714)	–1.1
Arizona	1,076	1,776	(700)	–1.0
West Virginia	2,350	2,994	(644)	–1.0
Indiana	1,599	2,223	(624)	–0.9
Montana	3,987	4,548	(561)	–0.8
Wisconsin	3,771	4,320	(549)	–0.8
New Mexico	2,420	2,782	(362)	–0.5
Maine	3,251	3,599	(348)	–0.5
Minnesota	3,564	3,892	(328)	–0.5
North Dakota	3,237	3,556	(319)	–0.5
Rhode Island	2,348	2,662	(314)	–0.5
Vermont	2,175	2,465	(290)	–0.4
Utah	3,131	3,380	(249)	–0.4
Kansas	2,489	2,730	(241)	–0.4
Connecticut	2,143	2,364	(221)	–0.3
Missouri	2,476	2,656	(180)	–0.3
Ohio	2,258	2,373	(115)	–0.2
Nebraska	2,472	2,573	(101)	–0.1

Source: Author’s calculations.

[a] Includes New York City taxes.

[b] Includes Baltimore City taxes.

TABLE 6.

State Income Tax Liabilities for High–Earning Couples Age 65 and Older Compared with Those for Younger Couples, Income Level $39,480 in 1998

State	Tax Liability/(Tax Refund) Age 65 and Older ($)	Tax Liability/(Tax Refund) Under Age 65 ($)	Difference in Tax Liability ($)	Difference as Percentage of Income (%)
Hawaii	812	2,655	(1,843)	–4.7
District of Columbia	1,278	2,989	(1,711)	–4.3
Virginia	0	1,679	(1,679)	–4.3
Utah	0	1,631	(1,631)	–4.1
South Carolina	0	1,552	(1,552)	–3.9
Georgia	90	1,603	(1,513)	–3.8
Oregon	1,005	2,423	(1,418)	–3.6
Delaware	476	1,889	(1,413)	–3.6
Montana	454	1,849	(1,395)	–3.5
New York[a]	745	2,056	(1,311)	–3.3
Kentucky	826	2,127	(1,301)	–3.3
North Dakota	452	1,744	(1,292)	–3.3
Maryland[b]	1,013	2,300	(1,287)	–3.3
Iowa	749	2,014	(1,265)	–3.2
Idaho	579	1,759	(1,180)	–3.0
Wisconsin	1,102	2,223	(1,121)	–2.8
Oklahoma	679	1,768	(1,089)	–2.8
Colorado	(82)	958	(1,040)	–2.6
North Carolina	884	1,851	(967)	–2.4
Maine	363	1,310	(947)	–2.4
Minnesota	723	1,660	(937)	–2.4
Michigan	570	1,491	(921)	–2.3
West Virginia	470	1,371	(901)	–2.3
New Mexico	69	945	(876)	–2.2
Missouri	512	1,331	(819)	–2.1
Louisiana	395	1,105	(710)	–1.8
Illinois	473	1,106	(633)	–1.6
California	31	639	(608)	–1.5
Rhode Island	489	1,092	(603)	–1.5
Vermont	453	1,012	(559)	–1.4
Nebraska	395	951	(556)	–1.4
Arizona	297	838	(541)	–1.4
Ohio	541	1,074	(533)	–1.4
Indiana	746	1,274	(528)	–1.3
Kansas	503	1,014	(511)	–1.3
Connecticut	16	306	(290)	–0.7

Source: Author's calculations.

[a] Includes New York City taxes.

[b] Includes Baltimore City taxes.

TABLE 7.

State Income Tax Liabilities for High-Earning Couples Age 65 and Older Compared with Those for Younger Couples, Income Level $83,573 in 1998

State	Tax Liability/(Tax Refund) Age 65 and Older ($)	Tax Liability/(Tax Refund) Under Age 65 ($)	Difference in Tax Liability ($)	Difference as Percentage of Income (%)
Hawaii	3,408	7,033	(3,625)	–4.3
Kentucky	1,961	4,774	(2,813)	–3.4
South Carolina	1,867	4,639	(2,772)	–3.3
Iowa	3,637	5,826	(2,189)	–2.6
District of Columbia	5,307	7,178	(1,871)	–2.2
New York[a]	5,091	6,886	(1,795)	–2.1
Virginia	2,618	4,214	(1,596)	–1.9
Delaware	3,355	4,932	(1,577)	–1.9
Oregon	4,863	6,390	(1,527)	–1.8
California	2,364	3,843	(1,479)	–1.8
Louisiana	1,375	2,834	(1,459)	–1.7
Idaho	3,955	5,321	(1,366)	–1.6
Maryland[b]	4,232	5,552	(1,320)	–1.6
Colorado	1,806	3,002	(1,196)	–1.4
North Carolina	3,806	4,938	(1,132)	–1.4
Illinois	1,344	2,429	(1,085)	–1.3
Oklahoma	3,808	4,855	(1,047)	–1.3
Georgia	3,241	4,249	(1,008)	–1.2
Arizona	1,663	2,395	(732)	–0.9
West Virginia	3,381	4,047	(666)	–0.8
Montana	5,628	6,223	(595)	–0.7
Indiana	2,197	2,773	(576)	–0.7
Wisconsin	4,909	5,418	(509)	–0.6
Connecticut	2,729	3,182	(453)	–0.5
North Dakota	4,545	4,886	(341)	–0.4
Maine	4,645	4,976	(331)	–0.4
Minnesota	4,876	5,188	(312)	–0.4
New Mexico	3,681	3,989	(308)	–0.4
Rhode Island	3,588	3,887	(299)	–0.4
Vermont	3,323	3,599	(276)	–0.3
Nebraska	3,392	3,655	(263)	–0.3
Utah	4,118	4,356	(238)	–0.3
Missouri	3,383	3,619	(236)	–0.3
Kansas	3,533	3,768	(235)	–0.3
Michigan	3,253	3,431	(178)	–0.2
Ohio	3,031	3,148	(117)	–0.1

Source: Author's calculations.

[a] Includes New York City taxes.

[b] Includes Baltimore City taxes.

ENDNOTES

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[1] *Budget of the United States Government, Fiscal Year 2000, Analytic Perspectives,* p. 112. The revenue loss estimate compares current tax treatment to taxing 85 percent of benefits, the treatment given certain civil service pensions and defined benefit pensions financed with contributions from after-tax income.

[2] Each tax expenditure is valued as though it is the only special provision that is eliminated. Because of interactions, the revenue losses for various expenditures should not be added.

[3] The maximum amount of allowable tax-deductible contributions varies among plans and sometimes by income level.

[4] Until fairly recently, the self-employed were treated somewhat differently than the employed. Not all the employer's share is immediately deductible because of limitations on the deduction of operating losses.

[5] Simple averages of different types of income were not used because many elderly do not receive income from certain sources. Averaging in a lot of zeros in each category would produce low incomes that would not reflect the experience of people enjoying those particular sources of income. Therefore, zero values were excluded in computing averages for different income classes. The averages computed in this manner for different types of income were then added to provide a consistent total income.

[6] It is often argued that programs provide benefits to the relatively affluent to ensure their support for those programs, which also provide benefits that may be a major income source for the poor.