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The Pros and Cons of State Tax Breaks for Senior Citizens

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All U.S. states provide tax credits and exemptions to older Americans, who clearly benefit and appreciate the help. Of course, people retired from the labor force do not owe payroll taxes, and their income tax rates may fall as well. Nevertheless, most citizens over age 65 must get by on relatively fixed budgets—and income for the typical older household is about half the level for all U.S. households. For many seniors, the cost of state and local taxes can loom large.

Not just older residents, but entire states may reap benefit from these tax breaks for seniors. Migrant retirees may move in, establishing new homes and spending pensions earned elsewhere. But there can also be disadvantages for localities and states that provide large and growing tax breaks to older residents. The pros and cons become evident when we look more closely at the various kinds of elder tax abatements and consider their consequences in the context of growing public budget pressures.

How Abatements for Elders Work

States have instituted various combinations of the following provisions:

- **"Circuit breaker"** tax credits are offered in 35 states to elderly residents (and sometimes to veterans and the disabled as well). They phase out at higher income levels.
- **Homestead exemptions** in 48 states lower the taxable value of an owner-occupied property. Exemptions go to all age groups, but older citizens get the most tax relief.
- **Property tax-deferrals** offered in 24 states allow older residents (and sometimes veterans and the disabled) to defer property taxes until a property is sold or the resident owner dies.
- **Tax limits, caps, and freezes** benefit the elderly in 42 states—including limits on the annual increase of assessed property values, caps on property tax rates, and freezes on property tax assessments.

Popular and Under the Radar

Tax abatements benefitting the elderly are rarely controversial. For several reasons, they usually fly "under the radar" and avoid public scrutiny and controversy.

- Older citizens are held in high regard by public officials and Americans of all ages. Many elders are poor and heavily reliant on Social Security and Medicare in an era of controversies about public spending and deficits. Nevertheless, seniors continue to be viewed as deserving of continued generous public benefits.
- Abatements for the elderly are "tax expenditures" that benefit people by reducing taxes they otherwise would owe to government. This kind of benefit is relatively invisible, in sharp contrast to welfare benefits that involve direct spending on private beneficiaries. Visible welfare spending is often much more controversial than under-the-radar tax breaks.
- Public officials often categorize tax abatements for the elderly as "economic development" measures—comparing them to the various abatements states and localities use to lure businesses. Officials maintain that senior tax abatements can be used to attract younger, affluent retirees, who collect their public or private pensions from other jurisdictions and spend them in their new home

state, thus boosting the economy.

The kinds of factors that usually limit the generosity of publicly funded benefits do not seem to restrict the generosity of tax abatements for the elderly. Our research finds that the percentage of a state's population that is elderly does not explain abatement generosity; nor does a state's capacity to raise overall revenues. Because tax abatements are popular and not very visible, they tend to expand with few of the usual constraints that limit welfare spending.

Looming Disadvantages

At first glance, indeed, elder tax abatements appear to create a "win-win" situation—reducing property taxes for retirees on fixed incomes while, at the same time, stimulating aggregate economic demand for states and localities. However, there can also be downsides for senior citizens and their home states—because, over time, tax abatements can shrink the revenues that states need to fund care for aging residents.

As younger affluent retirees age, their private resources are apt to dwindle even as they increasingly need expensive medical services and long-term care subsidized by the public sector. This occurs, for example, when older, poorer, and less healthy retirees rely on partially state-funded Medicaid programs for acute medical care, nursing facilities, and community-based home care services. Older people make up only a minority of all Medicaid beneficiaries, but each elder beneficiary costs more than each of the infants and children who constitute the majority getting Medicaid. Long-term senior care can cost more than $75,000 per person every year.

Medicaid now constitutes the largest public sector budget item in many states, and governments can face increasing trouble covering the bill when tax abatements shrink revenues. Which states are most likely to face this financial bind? We have discovered only one factor that explains the generosity of elder tax abatements: the overall tendency of a state's political culture to favor public expenditures for the vulnerable.

States in the Northeast and Upper Midwest fit this profile. They offer bigger tax breaks to the elderly—and most of these states also have relatively generous public social programs. Ironically, the downsides of tax breaks for the elderly may become evident first in states where publicly funded medical care and senior services are already quite generous. In an era of tight budgets, burgeoning tax abatements may turn out to be a luxury the most public-spirited states cannot afford. It may not be possible to spend more on the most feeble elderly at the same time that early retirees enjoy large and growing tax exemptions.

Read more in Chalres Lockhart, Jean Giles-Sims, and Bayliss J. Camp, "States Senior Residential Property Tax Abatements: Uncontroversial Benefit or Looming but Unrecognized Problem?" *Politics & Policy* 38, no. 4 (2010): 766-804.