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Better target senior tax breaks for fairness, savings
New report includes Iowa among states with poorly targeted, expensive breaks

IOWA CITY, Iowa (June 19, 2019) — As state lawmakers are considering new tax breaks in 2020, a new national report shows how Iowa already is one of many states offering costly and poorly targeted breaks for seniors.

"Instead of finding new ways to squander important resources for education and other public services that help Iowans at all ages, Iowa needs to find ways to better target the tax breaks it already provides — in particular for seniors," said Mike Owen, executive director of the nonpartisan Iowa Policy Project in Iowa City.

"Wealthy seniors do not need new tax breaks any more than other Iowans at high incomes."

A new report from the Center on Budget and Policy Priorities (CBPP) estimates the cost of such breaks to all states is $27 billion a year and will more than double by 2030. For Iowa, CBPP estimated the lost income-tax revenues in 2017 at $360 million a year, or 9 percent.

CBPP’s Elizabeth McNichol wrote that a large share of these breaks goes “to higher-income seniors who need them the least. States should reduce this expense by better targeting relief to seniors with low incomes.”

Iowa legislators in 2018 passed income-tax cuts that will be fully phased in during the coming years. Some sought, but failed, to include expanded pension income breaks in that package. However, senators already are looking at new cuts in 2020 and cuts for seniors again could be proposed, even though the CBPP paper shows Iowa already offers seniors big breaks.

Anne Discher, executive director of the Child and Family Policy Center, which with IPP forms the Iowa Fiscal Partnership (IFP), said Iowa’s focus should instead be on assuring revenues are available to strengthen services to struggling families and for improving economic opportunity.

"We’ve known for a long time that Iowa’s income tax system is tilted against lower-income families and treats those at higher incomes more favorably. This report supports past IFP research showing how special breaks for retirement income compound that problem," Discher said.

Iowa, the report notes, is one of 28 states and Washington, D.C., that fully exempts Social Security income from tax, regardless of the recipient’s income, and is one of 26 states that exempts private retirement accounts such as pensions from tax.

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“If Iowa is serious about fairness in taxation, it would look less at the source of income — wage income vs. pension income, for example — and look more at the amount, which tells you whether someone has the ability to pay,” Owen said.

“The CBPP report makes a very important point, that with an aging population and increased needs for services for that population in the future, we should not be undercutting our ability to fund those services by compounding costly and needless tax breaks for seniors, or anyone.”

The report also offered ideas on how states could better target tax breaks to seniors who need the help, including:

- limiting tax exemptions so that only seniors and retirees below an income threshold can use them;
- raising the age eligibility of tax exemptions for seniors and retirees;
- expanding state Earned Income Tax Credits to seniors;
- developing a means-tested credit targeted specifically to low-income seniors; and
- better tailoring property tax breaks to affordability.

McNichol noted that many of the current breaks were established decades ago, when poverty among the elderly was more widespread. The share of seniors in poverty has fallen from 25 percent in 1970 to 9 percent recently.

At the same time, income inequality has risen; seniors unable to benefit from the strong retirement plans also do not benefit from the tax breaks on that kind of income.

“Black and Hispanic families have faced longstanding employment and housing discrimination that have made it difficult for each generation to build savings and invest in the future of the next,” McNichol wrote. Nineteen percent of Hispanic senior households are likely to have retirement account income, she noted, compared with 25 percent Asian and 30 percent Black and 47 percent White.

For the full report, visit the CBPP website at this link: https://www.cbpp.org/research/state-budget-and-tax/states-should-target-senior-tax-breaks-only-to-those-who-need-them

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The Iowa Fiscal Partnership is a public policy analysis initiative of two nonpartisan, nonprofit organizations, the Iowa Policy Project in Iowa City and the Child and Family Policy Center in Des Moines. Find reports at www.iowafiscal.org.

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