Iowa Fiscal Partnership

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Untaxing Seniors: A 'Solution' in Search of a Problem

MOUNT VERNON, Iowa (Feb. 22, 2006) – New research affirms that proposed income-tax breaks for seniors offer to solve a problem that doesn't exist and to make Iowa taxes less fair.

"So few seniors leave Iowa for tax reasons that the price tag, conservatively, is about $450,000 a year per senior if we make these changes," said Peter Fisher, research director of the nonpartisan Iowa Policy Project and author of the new report for the Iowa Fiscal Partnership (IFP).

"The idea that seniors are leaving Iowa in large numbers because of taxes just doesn't hold water. Seniors who need tax relief already receive it. Legislation that recently passed the Iowa House will shift the financing of government from high-income retirees to working families and individuals."

Fisher's paper follows up an IFP report in April 2005 by Charles Bruner and Mike Crawford of the Child & Family Policy Center, who demonstrated Iowa tax policy already grants generous tax treatment to retirees but not working families at similar incomes. Among Fisher's findings:

- Most seniors stay in Iowa, with only seven-tenths of 1 percent leaving each year from 1995 to 2000. Of those, 4 in 10 went to a warm-weather state, and one-third went to one of seven states surrounding Iowa, most of which tax retirement income more heavily than Iowa.
- Many seniors move to Iowa; the net out-migration amounted to just over 1 percent of the senior population in five years.
- Many seniors who leave receive little or no tax advantage; and taxes are substantially higher in many of the leading destination states for Iowa retirees.
- Sales and property taxes can easily offset any savings on income tax.
- Migration of all seniors and migration of higher-income seniors bear little or no relation to tax differences among states.

"We've been hearing of legislators' concerns that large numbers of retirees are leaving Iowa each year to avoid paying taxes on retirement income," Fisher said. "What we know from census data is that most retirees stay here, and what we know from independent tax analysis is that Iowa is not a high-tax state and actually treats retirement income more generously than most of our neighboring states do. In fact, some move here even from lower-tax states."

Fisher's report, which is available at the IFP website <http://www.iowafiscal.org>, examines the grounds promoted for HF2045, a House bill that would expand tax breaks to Iowa's highest-income retirees on Social Security and pension income, and eliminate income tax for seniors making $36,000 individually or $48,000 as a couple. Iowa law already exempts Social Security income from tax for two-thirds of retirees, and excludes $6,000 (single) and $12,000 (couple) of pension income from tax.

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"There are no valid arguments for this change from either a competitiveness or fairness standpoint, and it further undermines the adequacy of revenues to meet demands for services," Fisher said.

"So, fiscally, it's not prudent to eliminate taxes on Social Security and pension income for the state's wealthiest retirees. And it's not fair to working families who are living paycheck to paycheck."

The Iowa Fiscal Partnership is a joint tax- and budget-analysis initiative of two nonpartisan, nonprofit organizations, the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines. IFP reports are available on the web at <http://www.iowafiscal.org>.

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