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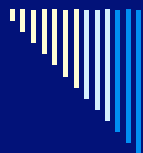
# The Elderly Population and Iowa Tax Revenues: As One Goes Up, Must the Other Come Down?

Amy Rehder Harris and Michael Lipsman

Tax Research and Program Analysis Section  
Iowa Department of Revenue

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## Outline

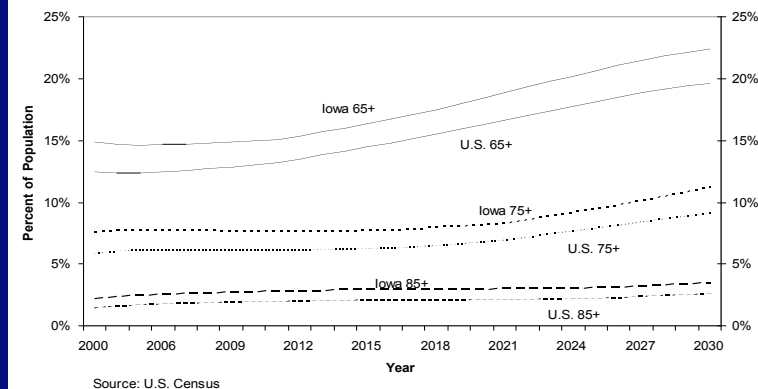
- Introduction
  - Iowa's Aging Population
  - Sources of Income by Age
  - Iowa Income Tax & Elderly Preferences
  - Model
  - Projected Revenue Impacts of Aging
  - Future Research
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## Introduction

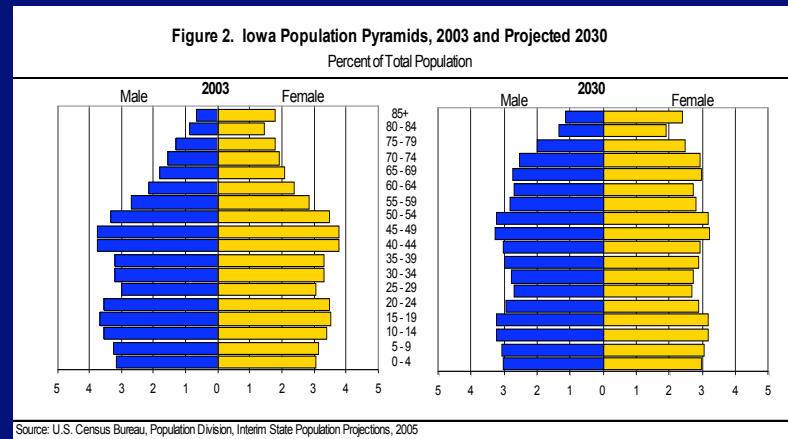
- Elderly income tax preferences in all states with income tax
  - Limit revenue growth as population ages (Wallace and Edwards, 2002; McNichol, 2006)
- Individual state analyses
  - Georgia (Landers, et. al, 2004), Kentucky (Wildalsin, et. al, 2001), Michigan (Menchik, 2002), Minnesota (Manzi, et. al, 2006), and Virginia (JLARC, 2006)

## Iowa's Aging Population

Figure 1. Projected Elderly Shares in Iowa and U.S.

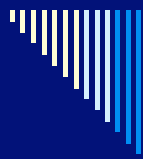


## Population Pyramid or Tower?



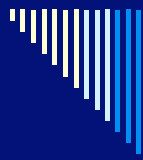
## Sources of Income by Age

- Income sources change with age
  - Wages dominate for young and middle-age
  - Pensions and Social Security dominate for the elderly
  
- Taxation often differ by income source
  - Pension income exclusion – 33 states
  - Social Security income exempt – 29 states



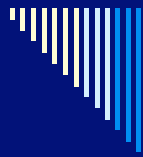
## Iowa Income Sources by Age

| Age Group | Wages | Pensions | Social Security |
|-----------|-------|----------|-----------------|
| 0-54      | 91.7% | 1.6%     | 0.2%            |
| 55-64     | 72.8% | 13.2%    | 2.4%            |
| 65-74     | 27.1% | 35.0%    | 22.9%           |
| 75-84     | 7.4%  | 41.3%    | 26.7%           |
| 85+       | 1.3%  | 31.0%    | 30.5%           |



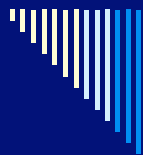
## Effective Tax Rates by Age

| Age Group | Total Income | Taxable Share | Effective Tax Rate |
|-----------|--------------|---------------|--------------------|
| 0-54      | \$46,800     | 99.3%         | 2.4%               |
| 55-64     | \$82,700     | 90.9%         | 2.7%               |
| 65-74     | \$68,400     | 60.5%         | 1.2%               |
| 75-84     | \$53,900     | 50.8%         | 1.0%               |
| 85+       | \$40,800     | 53.6%         | 1.1%               |



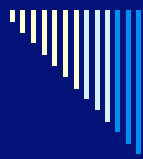
## Iowa Income Tax

- Iowa AGI similar to Federal
  - Pension exclusion
  - Iowa capital gains deduction
- Full Federal tax deductibility
- Progressive rate structure
  - Nine rates from 0.36 to 8.98
  - Six filing statuses
- \$1.9 billion in 2003



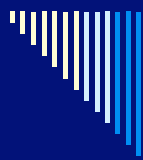
## Iowa Elderly Preferences 2003 Estimates

- Aged credit of \$20 (personal credit \$40)
  - -\$4.4 million, -0.2% of total revenues
- Pension exclusion \$12,000/\$6,000
  - -\$74.9 million, -3.6%
- Up to 50% Social Security taxable
  - -\$112.1 million, -5.4%
  
- -\$177.4 million elderly preferences' cost



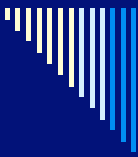
## 2006 Law Changes

- Phase-out of Social Security taxation
  - 100% non-taxable by 2014
  
- New filing thresholds for households 65+
  - \$24,000/\$18,000 in 2007-2008
  - \$32,000/\$24,000 in 2009+



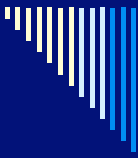
## Individual Income Tax Model

- Micro-model on population of tax returns
  - Restricted-use tax data
- 2003 base year
  - Most recent complete data set available (match to Federal return information)
- Incorporate aging using age-based weights
  - 25-year-old in 2003, weight 0.855 in 2030
  - 65-year-old in 2003, weight 1.352 in 2030



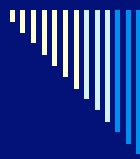
## Modeling Aging: 2003 to 2030

- Projecting 2030 Income Tax Revenues
  - Aging of the population
  - Population growth
    - 1%, 1.4% Taxpayers with Aging
  - New tax law in 2006
  - Inflation impacts on tax parameters
    - Deflate nominal values
  - Income growth
    - Assume uniform growth equal to inflation



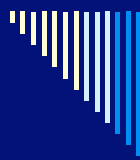
## Projected 2030 Revenue Impacts of Elderly Preferences

| Preference      | Fixed 2003 Age Distribution |       | Projected 2030 Age Distribution |        |
|-----------------|-----------------------------|-------|---------------------------------|--------|
| Aged Credit     | -\$2.8                      | -0.1% | -\$4.1                          | -0.2%  |
| Pension         | -\$47.6                     | -2.2% | -\$66.5                         | -3.0%  |
| Social Security | -\$158.9                    | -7.3% | -\$228.9                        | -10.3% |
| Minimum Income  | -\$12.9                     | -0.6% | -\$19.0                         | -0.9%  |
| 2030 Law        | -\$207.3                    | -9.6% | -\$296.7                        | -13.4% |

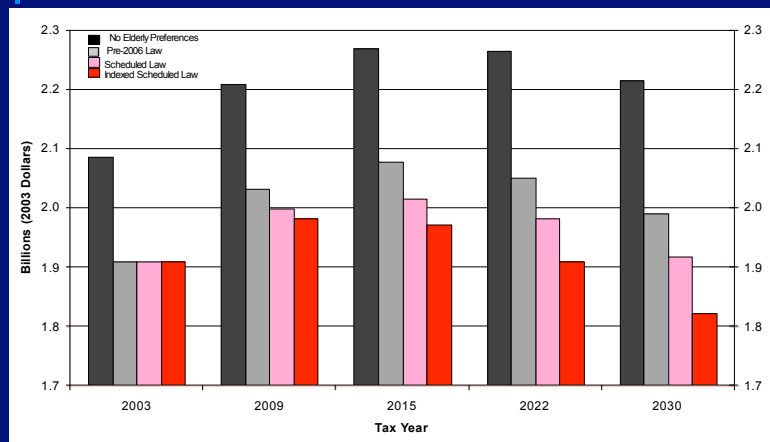


## Projected 2030 Revenue Impacts of Elderly Preferences

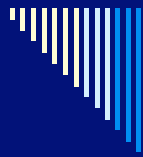
|                 | Indexed Preference | Fixed 2003 Age Distribution |               | Projected 2030 Age Distribution |               |
|-----------------|--------------------|-----------------------------|---------------|---------------------------------|---------------|
| Aged Credit     |                    | -\$5.0                      | -0.2%         | -\$7.3                          | -0.3%         |
| Pension         |                    | -\$79.6                     | -3.7%         | -\$110.4                        | -5.0%         |
| Social Security |                    | -\$158.9                    | -7.3%         | -\$228.9                        | -10.3%        |
| Minimum Income  |                    | -\$64.6                     | -3.0%         | -\$95.4                         | -4.3%         |
| <b>2030 Law</b> |                    | <b>-\$244.9</b>             | <b>-11.5%</b> | <b>-\$349.7</b>                 | <b>-16.1%</b> |



## Projected Iowa Revenues and Elderly Preferences







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## Conclusions and Future Research

- Elderly preferences have high cost
    - \$350 million (2003 dollars)
  - Incorporate differential income growth rates across various sources of income
  - Consider expenditure side for a full picture of aging's impact on State resources
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