Tax Cuts Should Focus on Need not Age

Position Statement Opposing House Bill 195

Given before the House Ways and Means Committee

Across-the-board tax cuts on retirement income would result in financial gain for the wealthiest households at a high cost to the state. It is important to help retirees who struggle to make ends meet. However, such efforts must be targeted by need, not just age, so laws don't shift the burden of paying for the state's needs from wealthy seniors to younger people who are still in the workforce. For these reasons, the Maryland Center on Economic Policy opposes House Bill 195.

The Department of Legislative Services estimates that this proposal will cost state and local governments at least $100 million per year[i]. In other states, implementing similar tax cuts has been costly for state governments and residents, who rely on public services. For instance, a proposal in Iowa to phase out state taxation on retirement income over the course of five years was shown to cost the state about $200 million a year. It is simply not true that people over 65 years old are uniformly in desperate need of financial relief, or that many elderly residents flee to states with lower tax rates, as some have suggested.

Though poverty is often associated with advanced age, many Maryland seniors are living comfortably in retirement thanks in part to benefits they already receive, like Social Security, Medicare, and lower taxes. A 2015 U.S. Census report found that Americans over 65 are less likely to be poor than people in their working years[ii]. Maryland residents 65 and older are much less likely to be in poverty than younger adults. Marylanders 65 years of age and older have a 7.4 percent chance of living in poverty, while adults 18-64 have a 9.6 percent chance of being in poverty, also according to the most recent Census Bureau statistics. This highlights a mismatch between tax breaks offered and needs within the state's population.

Furthermore, there is strong evidence to refute the claim that older residents are fleeing the state to avoid taxes. There were 824,744 Marylanders 65 and older in 2014 and 611,668 in 2005. That doesn't look like an exodus and the growth isn't all from baby boomers aging.

Federal law already gives people over 65 a higher standard deduction on their income taxes and a full or partial income-tax exemption for Social Security payments, depending on levels of income. In Maryland, a married couple over 65 could deduct as much as an additional $58,000 from taxable income. In many cases wealthy taxpayers reap the biggest benefits from state income tax breaks that go to all older adults[iii].

These scattershot tax breaks shift resources away from important public services that help residents who struggle to make ends meet, including some seniors. It would be counterproductive to add another costly, across-the-board tax cut for seniors. Lawmakers should focus on policies that encourage economic growth and truly help Marylanders who need it most. Millionaires shouldn't get the same tax breaks as people who have to count every penny – regardless of their age.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee give an unfavorable report to House Bill 195.

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[i] Maryland Department of Legsilative Services, Fiscal and Policy Note for House Bill 195, http://mgaleg.maryland.gov/2017RS/fnotes/bil_0005/hb0195.pdf

[ii] DeNavas-Walt, Carmen and Proctor, Bernadette D. United States Census Bureau. *Income and Poverty in the United States*. Current Population Reports, September 2015. Retrieved from https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf

[iii] "State Tax Preferences for Elderly Taxpayers." November 28, 2016. Institution on Taxation and Economic Policy. Retrieved from http://itep.org/itep_reports/2016/11/state-tax-preferences-for-elderly-taxpayers.php#.WJIx8_krIdU